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Mexico

After the Oil Boom: Refashioning a Development Strategy

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On June 16, 1987, the exchange rate in the controlled market was US\$ = Mex\$1,312.00.

MEXICO AFTER THE OIL BOOM: REFASHIONING A DEVELOPMENT STRATEGY

PREFACE

This report is based on the findings of an economic mission which visited Mexico in 1986, and of subsequent updating missions in April-May 1987. The missions included the following individuals:

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The report examines economic developments over the past three years, with particular emphasis on the crisis brought on by the collapse of international oil prices in 1986. The report highlights the major policy achievements of the Government's growth-oriented adjustment program implemented during 1986-87 in terms of averting a balance of payments crisis, setting the economy on a new outward-oriented growth strategy, and initiating far-reaching structural reforms. The report notes that these domestic adjustment measures took place in an exceptionally unfavorable external environment characterized by record high real international interest rates, a drastic decline in Mexico's terms of trade after 1981, burdensome net external transfers, and, more recently, sluggish demand and growing protectionism in the major industrialized countries. The report concludes that three elements are critical to sustain economic recovery: (a) prompt action to curb accelerating inflation (mainly through coordinated trade and fiscal adjustments), (b) clear and sustained progress toward opening the economy, and (c) stable macroeconomic signals to the private sector, especially as regards the currently favorable real exchange rate. The report also recommends a number of measures to advance incipient sectoral reforms in agriculture, industrial incentives, the financial sector, and public sector management. Finally, considerable attention is devoted to the question of how the economic crisis has affected employment and the plight of the poorest. Some suggestions for speeding employment generation and for targeting social services on the neediest are offered, although the complex nature of the search for viable solutions is readily acknowledged.

<u>AREA</u>	<u>POPULATION</u>	<u>DENSITY (1985)</u>
Total: 1,973 km ² (000s)	80.4 million (1986) Rate of Growth: 2.3% p.a. (1980-1985)	39.5 per km ²

POPULATION CHARACTERISTICS (1984)

Crude Birth Rate (per 1,000)	33.2
Crude Death Rate (per 1,000)	6.6
Infant Mortality (per 1,000 live births)	50.6

HEALTH

Population per physician (1983)	1,200
Population per hospital room (1980)	1,780

INCOME DISTRIBUTION (1978)

% of national income, highest 20%	57.7
lowest 40%	2.9

DISTRIBUTION OF LAND OWNERSHIP

% of farms below 5 ha.:	..
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ACCESS TO SAFE WATER (1981)

% of population - urban	61.4
- rural	51.0

ACCESS TO ELECTRICITY (1982)

% of population	74.6
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NUTRITION (1983)

Calorie intake as % of requirements	125.9
Per capita protein intake (gms/day)	72.4

EDUCATION

Adult literacy rate % (1980)	83.0
Primary school enrollment % (1983)	119.0

GNP PER CAPITA IN 1985 US\$2,080GROSS DOMESTIC PRODUCT IN 1986

	<u>US\$Mln.</u>	<u>%</u>
GDP at Market Prices	128,109	100.0
Gross Domestic Investment	22,931	17.9
Gross National Saving	21,266	16.6
Current Account Balance	-1,700	1.3
Exports of Goods, NFS	21,300	16.6
Imports of Goods, NFS	16,200	12.7

ANNUAL RATE OF GROWTH (% constant 1970 prices)

<u>1976-1980</u>	<u>1981-1985</u>
6.7	0.8
9.4	-5.5
10.8	-4.6
-	-
12.2	7.6
13.6	-10.0

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1984

	<u>Value Added</u>		<u>Labor Force</u>		<u>V.A. Per Worker</u>
	<u>US\$Mln.</u>	<u>%</u>	<u>Ths.</u>	<u>%</u>	<u>US\$</u>
Agriculture	14,772	9.6	5,342	26.6	2,765
Mining ^{1/}	17,214	11.2	271	1.3	63,520
Industry ^{2/}	51,057	33.1	3,897	19.4	13,102
Services	71,125	46.1	10,582	52.7	6,721
Total/Average	154,168	100.0	20,092	100.0	7,673

GOVERNMENT FINANCE

	<u>General Government ^{3/}</u>			<u>Public Sector</u>		
	<u>(Mex\$ B)</u>	<u>(% of GDP)</u>	<u>1980-84</u>	<u>(Mex\$ B)</u>	<u>(% of GDP)</u>	<u>1980-84</u>
Current Revenues	9,043.4	19.9	19.6	14,684.0	32.2	31.2
Current Deficit	-1,411.9	-3.1	-1.0	-1,412.3	-3.1	-1.5
Capital Expenditures	2,087.2	4.6	5.8	2,733.5	6.0	9.6

.. Not available for a recent year.

^{1/} Including petroleum.

^{2/} Including manufacturing, utilities, and construction.

^{3/} Including the Federal Government, the Federal District, and the Social Security system.

MONEY, CREDIT AND PRICES

(Banking System)

1981 1982 1983 1984 1985 1986
(Millions of Mex\$ Outstanding at End of Period) (Oct.)

Money and Quasi Money	1,940	3,311	5,398	9,012	13,136	19,240
Bank Credit to Public Sector	1,025	2,883	4,498	6,048	10,136	19,342
Bank Credit to Private Sector	1,020	1,366	2,030	3,709	5,777	9,165

(Percentages or Index Numbers)

Money and Quasi Money as % of GDP	33.0	35.2	31.5	31.4	28.8	26.5
Consumer Price Index (1980=100) ^{1/}	127.9	203.3	410.2	679.0	1,071.2	1,994.9 (Dec.)
Annual Percentage changes in:						
Consumer Price Index ^{1/}	27.9	59.0	101.8	65.5	57.8	86.2 (Dec.)
Bank Credit to Public Sector	54.5	181.3	56.0	34.5	78.7	101.0 ^{2/}
Bank Credit to Private Sector	45.9	33.9	48.6	82.7	55.8	73.9 ^{2/}

BALANCE OF PAYMENTS US\$ B.

	1974	1979	1984	1986
Exports of Goods, NFS	5.2	13.7	30.1	21.3
Imports of Goods, NFS	7.4	16.2	16.2	16.2
Resource Balance	-2.2	-2.5	13.9	5.1
(deficit = -)				
Interest Payments (net)	-0.7	-3.0	-9.7	-7.0
Workers' Remittances	0.2	0.2	0.3	0.3
Other Factor Payments (net)	-0.3	-0.4	-0.7	-0.6
Net Transfers	0.1	0.2	0.4	0.5
Balance on Current Acc.	-2.9	-5.5	4.2	-1.7

Merchandise Exports (Averages)

	(US\$ B.)	
	1980-86	%
Petroleum Products	13.5	66.8
Mach. & Equipment	1.7	8.4
Garden Vegetables	1.3	6.4
Mining Ores & Metals	0.9	4.5
Agro-industrial Prods.	0.8	4.0
Chemicals	0.6	3.0
Coffee	0.5	2.5
Manuf. Non-ferr. Metals	0.4	2.0
Others	0.5	2.4
Total	20.2	100.0

EXTERNAL DEBT, DECEMBER 31, 1986

	1974	1979	1984	1986	US\$ B.
Direct Foreign Investment	0.7	1.3	0.4	1.0	Public Debt, Incl. Guaranteed
Net MLT Borrowing (Public)	1.2	1.1	2.0	0.6	Non-Guaranteed Private Debt ^{5/}
(Disbursements) ^{3/}	(1.4)	(5.2)	(8.2)	(7.1)	Total Outstanding & Disbursed
(Amortization) ^{4/}	(0.2)	(4.1)	(6.2)	(6.5)	100.2
Other MLT (Net)	1.2	2.7	0.7	-0.5	
Subtotal	3.1	5.1	3.1	1.1	<u>DEBT SERVICE RATIO FOR 1986</u>
ST Public Capital (Net)	-	-	0.2	-0.7	<u>% ^{6/}</u>
Private ST & Errors & Omds.	-0.1	0.7	-4.5	0.2	Public Debt, Incl. Guaranteed
Change in Net Reserves	-0.1	-0.3	-3.0	1.1	Non-Guaranteed Private Debt
(- = increase)					Total Outstanding & Disbursed
					47.9

RATE OF EXCHANGE, 1986 AVERAGE

US\$ 1.00 = Mex\$611.8
Mex\$1.00 = US\$0.00163

IBRD/IDA LENDING, (Dec. 31, 1986) (US\$ Mln.)

	IBRD	IDA
Outstanding and Disbursed	6,934.7	-
Outstanding Incl. Undisbursed	9,359.1	-

^{1/} Annual average.^{2/} Annualized rate.^{3/} Including refinancing.^{4/} Including postponements and restructuring.^{5/} Including US\$7.8 billion owed by nationalized domestic commercial banks.^{6/} As a share of exports of goods and non-factor services.

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SUMMARY AND CONCLUSIONS

ECONOMIC MEMORANDUM ON MEXICO 1987

Introduction

1. Since the onset of a generalized financial crisis in 1982, Mexico's policy strategy -- as embodied in the National Development Plan (PND), PRONAFIDE, PRONAFICE, PROFIEX, PRONAL, the 1986 Trade Policy Program, and the Growth-Oriented Adjustment Program (PAC) -- has recognized that a return to sustainable growth would require not only stabilization of the economy, but also far-reaching structural reform. When key components of Mexico's original adjustment program went off track in 1985, and the collapse of international oil prices in 1986 severely worsened the economic outlook, the Government responded by accelerating the pace of stabilization cum structural reform to a degree not witnessed in several decades of Mexican development. This summary reviews the significant progress achieved over the course of the past three years, while highlighting some of the key new issues emerging as the country faces pressing economic challenges.

2. As is customary in Bank economic memoranda, the focus of this report is on Mexico's internal efforts to overcome the macro-economic crisis of 1982 and lay the groundwork for a new, outward-looking development strategy. Nevertheless, it is well to recall that, virtually from the beginning, this adjustment process has been carried out under external conditions unfavorable to a degree not witnessed since the Depression of the 1930s. Mexico's leading export, oil, has declined by nearly two-thirds in price since 1981, precipitating a 44% decline in the country's international terms of trade through 1986. Simultaneously, international interest rates were reaching their all-time peak in 1981, and, corrected for the decline in Mexico's export prices, averaged over 20% annually in real terms over the next five years. Moreover, from the second half of 1982, voluntary lending to Mexico halted abruptly, after having sustained a steep upward trend over the preceding decade. Net capital inflows, excluding private short-term capital and errors and emissions, declined precipitously from US\$23 billion in 1981 to US\$0.4 billion in 1986, despite three concerted financing efforts in 1983, 1984-85, and 1986. Thus, the pro-cyclical character of capital flows, particularly from private foreign creditors, aggravated the internal financial crisis and constituted an additional factor to which Mexico had to adjust.

3. Such a radical drop in external financing would have been difficult to handle under any circumstances, but in this case its negative effects were compounded by sizeable increases in net factor payments abroad. After rising by 54% in 1981, these payments peaked at US\$12.5 billion in 1982, and have oscillated between US\$7.5-10.0 billion annually since then. Taking into account total medium and long-term capital inflows of US\$17 billion, in net

terms, Mexico transferred resources abroad amounting to approximately US\$31 billion during the 1982-1986 period (always excluding the impact of short-term private capital movements and errors and omissions). As a share of GDP, these net transfers were equivalent to about 4% of GDP, absorbing about 15% of domestic savings and nearly one-quarter of export earnings. To cite one well-known historical case, these transfers were about 1.6 times larger in relation to national income than the war reparations paid by Germany after World War I, and double Germany's effort in relation to exports. To accomplish this transfer, Mexico generated a cumulative trade surplus of US\$48 billion over the last five years, equivalent to 6.3% of GDP. This was proportionally more than three times the trade surpluses generated by Germany during 1929-32, when the pressures of its war reparations reached their peak.

4. The size and the protracted nature of these outward transfers of resources, against the backdrop of particularly unfavorable world economic conditions (including an exceptionally slow world economic recovery and the growth of protectionism), have severely complicated Mexico's efforts to achieve a successful, growth-oriented, structural adjustment process. The transfers have siphoned off domestic saving, thus contributing to the growing gap which has emerged in recent years between Mexico's rising domestic savings effort and its sharply falling investment coefficient.

5. Given these severe external constraints, the achievements of recent years can be seen in perspective by referring back to the key policy issues cited in the Bank's 1984 Country Economic Memorandum (CEM). That CEM traced the considerable progress toward stabilization achieved during 1983, as the fiscal deficit was halved, the trend toward rising inflation reversed, and the external debt rescheduled in orderly fashion. By early 1984, the Mexican economy was being hailed by some observers as a model for heavily indebted countries, demonstrating what could be accomplished by dint of decisive, disciplined, and coordinated policy action.

6. The CEM also highlighted four areas requiring special attention in the coming years:

- (i) completion of the stabilization process, particularly via further reductions in the fiscal deficit;
- (ii) sustaining the rapid growth of non-oil exports, so as to reduce Mexico's reliance on foreign borrowing and upgrade its credit-worthiness;
- (iii) placing greater reliance on private sector-led growth, as called for in the PND; and
- (iv) adopting coordinated policies to boost employment and reduce incentives for capital-intensive development.

Completing Stabilization

7. Although the Government's economic stabilization program remained on track throughout much of 1984, there were signs of impending difficulties. Having been devalued by some 50% in real terms over the course of 1982 and early 1983, the exchange rate, together with restrictive fiscal policies, brought about a sharp improvement in the current account of the balance of payments and in the level of foreign reserves, which rose by US\$6 billion in 1983. The surge in domestic liquidity stemming from the growth in foreign reserves could have been absorbed by rapid import liberalization and continued improvement in the fiscal accounts. In the event, neither occurred. Quantitative restrictions covered nearly all imports competing with domestic production, while the improvement in fiscal performance originally contemplated under the 1984 program with the IMF did not materialize. An unexpectedly sharp recovery of private sector demand in late 1984 reinforced the inflationary pressures stemming from balance of payments developments. The real exchange rate appreciated by 57% in real terms from March 1983 through June 1985, which had the effect of repressing for a time the recorded rate of inflation. But by the last quarter of 1984, there were overt signs of an impending balance of payments crisis, as non-oil export growth came to a halt, imports surged, and the rate of capital flight accelerated. Hence, even though growth in output and employment were much better than expected, and inflation continued to decline, 1984 concluded amidst signs that the real appreciation had to be reversed, that inflation might soon be headed upward, that the external balance could deteriorate significantly, and that the economic recovery might, therefore, be unsustainable.

8. The fiscal effort began to slip significantly in early 1985, as a consequence of declines in oil revenues, an increase in subsidies and transfers, and, by the third quarter, significant declines in real public sector prices and tariffs. Disintermediation, rising inflationary expectations, and mounting capital flight were counteracted by upward shifts in interest rate ceilings, and some cutbacks in public investment. However, these adjustments were unable, of and by themselves, to reverse the slide in macroeconomic performance. Net borrowing from abroad slowed to a trickle, in part because the Government itself had decided not to borrow more than US\$1 billion during 1985. (In reality, it borrowed even less). And the growth in foreign demand for exports, particularly in the U.S., slowed significantly. By mid-1985, the rate of foreign exchange losses had risen to US\$500 million monthly, and a number of quarterly fiscal and balance of payments program ceilings had been surpassed. As a result, no further drawings under the stand-by negotiated with the IMF were made.

9. To re-establish a sustainable macro-economic policy package, real public sector expenditures were once again cut sharply, starting in July 1985. These reductions were accompanied by a large step-wise devaluation, the adoption of a more flexible policy of daily exchange rate adjustments, and major increases in interest rates. Structural reforms also received greater emphasis. The program of trade liberalization, started in 1984, received a strong impulse from the elimination of quantitative restrictions covering roughly 40% of imports.

10. Despite a tragic and costly earthquake in September 1985, the Government unveiled an austere budget in November 1985, which called for raising the primary fiscal surplus from 3.3% of GDP in 1985 to over 9% of GDP in 1986. This implied a one-year fiscal adjustment substantially larger than had ever been achieved in post-World War II Mexican history. However, a collapse in international oil prices during the early months of 1986 lowered Mexico's 1986 oil export earnings by over US\$8 billion (equivalent to 6.7% of GDP). This loss necessitated a complete revamping of Mexico's 1986 economic program, with results which obviously could not match original expectations.

11. Much of 1986 was witness to efforts by Mexico, with strong support from a few segments of the international community (chiefly the multilateral financial institutions), to devise a growth-oriented program of adjustment and structural change. The PAC, as this program is known in Mexico, aimed at restructuring Mexico's existing external debt and raising the additional finance considered necessary to allow Mexico sufficient time to absorb the sharp decline in its terms of trade. The main objectives of the program included: (i) moderate economic recovery in 1987 in an environment of financial stability and anti-inflationary policies; (ii) strict control over public spending via the establishment of agreed quarterly and monthly ceilings on current spending and deficits for all principal agencies, and by a close monitoring of spending outcomes by the Planning and Financial Secretariats; (iii) intensifying the drive to restructure public-enterprises; (iv) reducing real current spending in the central government; (v) refocussing public investment to actively promote employment generation; (vi) increasing public expenditures on health, education, regional and urban development, water and sanitation, roads, electric power, and the targetting of basic food subsidies, so as to alleviate the social costs of adjustment and protect real wages; (vii) utilizing public investment to stimulate private investment activity; and (viii) reducing project procurement costs.

12. The Government moved quickly to put its program into action. Macroeconomic measures were particularly effective. Fiscal policy was tightened, as real current non-financial spending (i.e., excluding payments of interest on the public debt) was reduced by 4%, and real investment by a much larger 17%. Excluding oil export revenues, other tax receipts were raised by nearly 2 percentage points of GDP, thanks to substantial increases in most real public tariffs and prices, increases in value-added, automotive, and personal income tax rates, and a shortening of the period during which business taxpayers were allowed to liquidate pending tax obligations. The peso was devalued by 33% in real terms during 1986 (and by over 55% from July 1985 to the end of 1986). The real Average Cost of Funds in the commercial banking system reached its highest level since the 1960s (about 6% on average in 1986, but in excess of 20 percent annually at the end of the year). Moreover, the pace of structural change also accelerated, as major food subsidies were eliminated, significant tax reform approved, a growing number of plant mergers and closings carried out by the state enterprises, and major upward revisions in real public prices and tariffs initiated.

13. During 1986, policy action overfulfilled many of the terms of the stand-by program concluded with the IMF in September 1986. This was all the

more noteworthy in the light of the absence of any fresh foreign commercial bank financing. (The US\$7.7 billion package agreed on by the banks and the Government in September 1986 did not disburse for seven more months until the "critical mass" of 90% of the committed amount was finally subscribed toward the end of April 1987). Inflation was 106% (rather than 115%). The PSBR was 16.1% (rather than 16.8%). The operational fiscal deficit was 1.7%, rather than 2.1%. Non-oil exports expanded by 34% in 1986, considerably faster than the 18% growth targetted in the program. The private sector brought in roughly US\$2 billion in capital, the first such repatriations since 1980. And the increase in foreign reserves, adjusted for the shortfall of US\$3.5 billion in foreign commercial bank credit, outperformed program objectives by over US\$2 billion.

Non-oil Export Promotion

14. Although performance has been somewhat uneven, the growth of non-oil exports of goods and non-factor services has been impressive since 1982. Earnings in U.S. dollars have risen by nearly 13% annually, with manufactures (28.6%), in-bond industries (18.9%), and agricultural products (9.6%) having done particularly well. At nearly US\$16 billion in 1986, non-oil exports were equivalent to more than 70% of total exports, and over 12% of GDP. These are the highest ratios since the late 1970s when the oil boom was just getting underway.

15. After declining in real terms during the late '70s and early '80s, non-oil exports displayed a marked shift in performance. Behind this shift lay several factors, principally the influence of exchange rate policy in an environment of rapid change in the international markets for petroleum and related products. In Mexico's case, non-oil exports were deterred not only by an appreciating exchange rate, but also by new import restrictions surrounding a booming domestic market. The competitiveness of most tradeable industries suffered severe setbacks.

16. Since 1982, of course, the opposite process has been in effect, albeit with a significant departure from trend during the 1983 and 1985 period. As the international price of oil has declined, so too has the real peso tended to depreciate against other currencies. Despite an intensification of import QRs in late 1982, non-oil exports continued to expand, so long as the low real exchange rate assured more attractive margins for exports than for sales to the domestic market. However, following the recovery of domestic demand in 1984, amidst signs of increasing peso overvaluation, non-oil export growth came to a halt, and then turned negative in 1985.

17. Since mid-1985, the policy trends affecting non-oil exports have once again become favorable. Through May 1987, the real depreciation of the peso had reached almost 60%. Import liberalization had advanced considerably with the removal of most QRs, the phased reductions in tariffs, the lowering or elimination of official reference prices (ORPs), Mexico's entry into the GATT, and the signing of 4 key GATT codes on export subsidies, dumping, countervailing, and valuation. Export promotion had also benefitted from

measures streamlining administrative processes, easing requirements for temporary import admission, granting exporters improved credit, and reducing restrictions on the use of export earnings. The payoff on these reforms has been the highest rate of merchandise non-oil export growth in Mexico's history, exceeding 34% in 1986, and continuing at a more than 20% annual pace through April 1987.

Enhancing the Role of the Private Sector in Economic Development

18. The previous CEM observed that, in the face of grave macro-economic disequilibria and severe constraints on access to external saving, Mexico's public expenditure - led growth strategy had reached its limits. (This was of course, very much in line with what the 1983-1988 PND had already stated). In the future, growth was likely to derive mainly from the tradeable goods sector, notably agriculture and manufacturing, and from some of the promising service branches, such as tourism and in-bond industries. Given that private enterprise was predominant in these potential leading sectors, it was expected that a larger private sector role in Mexico's recovery and long-term growth would emerge during this sexenio (six-year administration).

19. Comparing the public and private sector contribution to the growth and development process is an enterprise fraught with difficulties, since there is no single measure or group of measures which could provide an adequate gauge. Moreover, the long period elapsed since the national income accounts were last revised means that comparisons of relative public vs. private sector growth must be surrounded with a more than usual number of caveats about possible statistical biases. Yet, by reviewing such measures as are readily available, the picture which emerges is decidedly mixed. Although the public sector's presence in economic life has been scaled back in important ways since 1982, in some respects it has continued to grow. Meanwhile, the private sector has seen its relative economic position hold stationary, or even diminish. In short, a leading role for the private sector in bringing about recovery has yet to emerge.

20. In terms of real spending on goods and services (i.e., non-financial public spending under budgetary control) and the real size of the fiscal deficit, there can be little doubt that the public sector has undergone major shrinkage since 1982. Non-financial public expenditures have fallen by over one quarter, while the real (or operational) fiscal deficit has shrunk from 7.2% of GDP in 1982 to 1.7% of GDP in 1986. During this period, real public sector investment declined by over 50% (and by nearly 60% in relation to its peak in 1981), while non-financial current spending dropped by about a fifth. (From this standpoint, the structure of spending cuts, with its heavy bias toward reducing public investment, may have been less supportive of renewed growth than it could have been).

21. However, the decline in non-financial public spending has been offset by the effects of high and rising interest payments, as well as by the sharp decline in oil revenues. Interest payments rose from 8.5% of GDP in 1982 to nearly 17% in 1986, carrying total public spending this past year

(including current outlays of the state enterprises) to 46% of GDP. This was nearly as high as in 1982, and far above the 1980 level of 35%. It is this rapid growth in interest expenses, as well as the huge loss of oil revenues, which accounts for the comparatively modest decline in the public sector borrowing requirement from 18.4% of GDP in 1982 to 16.1% in 1986.

22. From the public revenue perspective, since non-oil revenues are levied on activities mainly originating in the private sector, they may better reflect the public sector's long-term command over private income. By this measure (and notwithstanding the introduction of new value-added and excise taxes since 1980), the revenue share of the public sector has oscillated over the past six years between 17-20% of GDP, with some tendency toward recovery from the bottom reached in 1983.

23. Another indicator -- the public sector's contribution to, or claim on, national savings -- provides added perspective. It shows an uneven pattern of the public sector's presence, absorbing first sharply lower, then higher, proportions of the private sector's surplus. In 1982, the public sector's deficit on its current fiscal accounts, at 7.8% of GDP, was equivalent to about one-third of the private sector's national saving. By 1984, having achieved an 8% of GDP improvement in the operational fiscal balance, the public sector managed to produce a small surplus on the current fiscal account. But thereafter, dissaving grew rapidly once again, reaching 9.8% of GDP in 1986, which was still a third of the private sector's now higher saving level. It is, no doubt, true that rising inflation distorts the current balance measure of the public sector's saving effort by pushing upward nominal interest payments, a large share of which really represent an accelerated return of real principle to holders of the public debt. The problem is that ex post measures of the real fiscal deficit, such as the operational deficit referred to above, do not convey a picture of the ex ante pressures that rapidly growing nominal public sector borrowing requirements exert on scarce domestic financial resources, and, ultimately, on prices. This is particularly the case when inflation-taxed domestic savers become reluctant even to maintain their holdings of public debt level in real terms, and when the flow of foreign savings likewise becomes scarce and expensive. Thus, the current balance measure of public vs. private saving does serve to highlight the still unresolved issues lying within the nexus of public deficit finance, the cost of credit, and rising inflationary pressures.

24. For the private sector, the indicators are also mixed. The level of investment has recovered partially from its nadir in 1982 of 11% of GDP. It may have come in at around 14% of current GDP in 1986, but this would still be far below its peak level of 19% of GDP in 1980. By contrast, private sector saving has actually increased from its already high level of 22% of GDP in 1980 to almost 28% of GDP in 1986. Of course, in recent years, anywhere from 2 to 6 percentage points of this rate represented involuntary savings, i.e. savings collected via a rising inflationary tax on a shrinking base of low-yielding, peso-denominated financial assets.

25. Another useful measure derives from comparing output growth in sectors where public sector participation is important (mining, electricity, financial services, public administration and defense, and transport and

communication) with growth in those sectors where the private sector is dominant (agriculture, forestry, fishery, manufacturing, construction, commerce, and other services). While growth has slowed in all sectors, areas where the private sector is dominant have lagged public-sector-led economic activities both before and after the 1982 crisis. Between 1980 and 1985, overall private sector output essentially stagnated, while public sector-led activities expanded at an annual average of 3% in real terms. The contrast in employment trends is even more striking. Although there were sporadic efforts to reduce staffing in some sectors of the central government, overall public sector employment rose at a 6.3% annual rate during 1980-85 (adding over 1.1 million positions), whereas employment in the private sector essentially stagnated. (The conversion of some consultants previously under contract to full-time civil service positions and the nationalization of commercial banks and certain firms in the early 1980s are two additional factors which helped expand the public employment rolls). Although the growth in public employment slowed significantly after 1983 (to 2.9% in 1985), on average it continued to exceed private sector employment growth during the 1983-85 period by a wide margin (5.4% per annum vs. 0.4%).

26. No doubt, a major factor explaining why the private sector has not done better in the 1980s relates to the uncertain climate for growth and investment. But it is probably also true that, through its preferential access to society's resources (and through deficit financing), the public sector has been able to deflect the impact of that uncertainty away from its own activities. Logically, the burdens of recession and uncertainty would have fallen more heavily on the private sector.

27. Finally, with respect to regulatory trends, a start toward more flexible public oversight of economic activities has been made. For example, the number of goods subject to strict price controls has narrowed from 121 broad product categories in 1983 to 20 in September 1986. The emphasis has shifted to semi-automatic formulae for approving periodic price changes. Forty-four product categories are now classified under so-called "registered controls". Still, the number of products subject to public price control, of varying degrees of severity, remains high, covering about one-third of non-oil output. Beyond certain basic foods and pharmaceuticals, most agricultural machinery, fertilizers, processed fruits and vegetables, wood products, steel, petrochemicals, some home appliances, and transport equipment (autos and trucks), among other key products, are subject to these controls.

28. In the area of technology and foreign investment licensing, the regulatory framework has been clarified by the publication since 1984 of more detailed rules specifying those sectors where foreign ownership of local companies can be full (e.g., transport equipment, excluding auto components, and high technology services), partial (i.e., up to 49% in routine cases), or is prohibited (e.g., basic petrochemicals and oil). Moreover, the administrative interpretation of the 1972 basic legislation has been simplified during the past two years, so that export-oriented, high-tech, and small and medium-scale enterprise projects are receiving more favorable treatment.

29. A debt-equity conversion program introduced in 1986 appears to have stimulated new foreign investment, while allowing the public sector to retire about US\$750 million in external debt, and the private sector another US\$900 million. These improvements helped stimulate an acceleration in the rate of approved new foreign investment authorizations from less than US\$1 billion annually in 1983-84 to nearly US\$2 billion in 1986. Still, the actual inflow of new foreign investment remains much smaller than authorizations (on the order of US\$1 billion in 1986), and heavily concentrated in the in-bond industrial sector (75% or more). In part, this may reflect a perception by foreign investors that the regulatory framework for in-bond industries remains more well-defined and liberal than regulations governing conventional foreign investments.

30. Lastly, the climate for investment, both foreign and domestic, is affected by regulations governing areas such as labor-management prerogatives for hiring, promotions, and dismissal, product marketing and distribution, and legal protection for patents and intellectual property. In some cases, extensive regulations appear to be adding to red tape and delays, while increasing uncertainty about the timing and profitability of investment outcomes. This may deter some investors and/or unduly reduce economic efficiency.

31. A broad-based restoration of private sector confidence, particularly among local entrepreneurs, is critical for the achievement of Mexico's efforts to restructure and resume sustainable growth. Some scepticism remains about whether the recent gains in macroeconomic performance will be consolidated during the remainder of this Administration, and into the next. This uncertainty could deter entrepreneurs from undertaking needed long-term investments.

Stimulating Productive Employment

32. Mexico's expanding and highly successful family planning program, the spread of education among women, and their rising rate of participation in the labor force have brought about a major decline in fertility and in population growth. Population is now expected to rise by 2.2% annually over the next several years, compared with the 3.5-4.0% growth rates of 15 years ago. Some years hence, this slowdown should ease the pressure of first-time jobseekers on the labor market and -- other things being equal -- lead to higher average real wages and accelerating productivity growth. But for the next decade or so, the labor force will continue to grow more rapidly than the general population -- by nearly 4% a year, representing about 900 thousand new jobseekers a year.

33. Considerable caution must be exercised in interpreting employment data because of gaps in coverage, problems of definition, etc. This being noted, employment in formal labor markets, as measured by SPP data, appears to have essentially stagnated since 1982, despite modest increases in 1984-85. Since the economy shrank by 3% or so, maintaining a stable level of employment was probably a better result than could have been expected. Upon closer inspection, public sector rolls increased by 638 thousand during 1983-1985, which contrasted with a decrease of 188 thousand jobs in the

formal private sector. The number of those not employed in the formal labor market tripled from 1.5 million in 1983 to 4.8 million in 1986, or 19% of the active labor force. Of course, this employment "gap" should be treated cautiously, since an unknown, but probably important, share of these workers are productively employed, either in informal jobs or abroad. Nevertheless, this "gap" does provide a rough approximation of the growing problem of underemployment Mexico faces, which may be compounded if controls over access by undocumented workers to jobs in neighboring countries are tightened successfully.

34. Despite these difficulties, the labor intensiveness of output, even in the private sector, probably rose somewhat, a result attributable at least in part to the growing competitiveness of average wages in Mexico vis-a-vis the rest of the world, including the Asian high export countries. This has triggered a number of new job-intensive investments in electronics, transport, and manufacturing assembly operations.

Key Economic Issues

35. Only resolute policy action over the past year-and-a-half has prevented Mexico's exceptionally difficult macroeconomic situation from becoming far worse. The decision to accelerate, rather than slow down, import liberalization at a time when the balance of payments and foreign reserves were coming under maximum stress, showed remarkable political courage, as did the decisions to eliminate many subsidies, close down or restructure certain public enterprises, engineer a massive real devaluation of the peso, impose sharp new public spending cuts, reform the corporate tax system and improve collections, and correct lagging public tariffs.

36. In many respects, there are grounds for prudent optimism about the economic outlook. The worst of the terms of trade losses occasioned by the decline in oil and other commodity prices may now be past; indeed, some modest recovery in oil earnings during 1987 appears likely. Non-oil exports are booming. Foreign interest rates, adjusted for increases in commodity export prices, appear to be declining in real terms, despite a recent run-up in nominal rates. Foreign investor interest in Mexico is rebuilding rapidly, bringing gains in jobs, growth, and export earnings. The economy shows some signs of having bottomed out in the first quarter of 1987. And deposits in the commercial banking system have begun to recover rapidly in real terms since August 1986, now that positive domestic-foreign interest rate differentials have been reestablished.

37. But there are also concerns that the near-term international climate may become less favorable to Mexico's recovery. To longstanding concerns about slow world economic growth, the heavy burden of external debt, and declining international terms of trade must now be added the possibilities of higher near-term interest rates on dollar-denominated debt and an intensification of protectionism in Mexico's major export market. These developments are ominous because of Mexico's heightened sensitivity to exogenous changes.

38. In this extraordinarily complex situation, there are a number of key domestic issues where sustained progress will be fundamental. Four in particular are:

- (i) implementing the key aspects of the growth and stabilization policy package embodied in the PAC and in the new IMF stand-by (and going somewhat beyond them in the fiscal and trade policy areas), so as to maintain a climate of macroeconomic incentives conducive to a sustainable recovery of output in a context of gradual disinflation;
- (ii) substantially accelerating trade liberalization -- for example by bringing forward the measures planned for end-1988 to mid-1987 -- so as to relieve pressures to appreciate the real exchange rate, strengthen the anti-inflation program, provide a sound environment for new investment, and reinforce long-term export competitiveness;
- (iii) continuing to raise the efficiency of resource use, not only through trade liberalization, but through a restructuring of the public sector, closer scrutiny of public investment options, rationalizing industrial incentives, completing tax and agricultural reforms, strengthening the financial sector, further reducing credit subsidies, and pruning away regulatory "underbrush" without undermining fundamental public policy goals; and
- (iv) according more emphasis in policies to job creation and to the alleviation of the costs of adjustment for the poorest.

Managing the Risks of Economic Recovery, 1987-88

39. It should in no way detract from the success of the 1986 policy program to acknowledge that the current economic situation is one of unprecedented delicacy, requiring continued vigilance, policy action, and the willingness to act quickly to cope with unforeseen changes of basic conditions. One imminent change stems, paradoxically, from the vigor and effectiveness of adjustment efforts in 1986. The reversal of private sector capital flight and the improvement in the non-oil trade balance have far exceeded expectations to the point that, even before the first tranche of a US\$6 billion foreign commercial bank credit could be disbursed at the end of April 1987, Mexico had accumulated net reserves during the preceding 6 months at the rate of nearly US\$1 billion monthly.

40. Several factors may act to slow the rate of reserve accumulation in coming months. Interest rate spreads on domestic relative to foreign assets (which exceeded 20 percentage points in late 1986) should narrow because of both rising rates abroad and faster depreciation of the free exchange rate in recent months. Higher interest payments on external debt, a recovery in import demand, and expectations of slower non-oil export growth during 1987 should also reduce net reserve gains. Still, on current trends, net capital inflows with a direct monetary impact could total as much as US\$10 billion

during the November 1986-December 1987 period, which would be roughly two-thirds again the size of the narrow money supply (M_1) measured at the end of 1986.

41. The monetary impact of these large reserve increases poses urgent and critical choices for policymakers, especially now that a comfortable foreign reserve position has been restored. The lessons from the adjustment experience of 1983-85 are clear: the present surge of liquidity triggered by the monetization of large-scale foreign capital inflows must be staunched to forestall runaway inflation and/or a rapidly appreciating real exchange rate, and, eventually, a damaging setback to Mexico's balance of payments. Already inflation has trended up to an annualized rate, seasonally adjusted, of more than 120% during the first five months of 1987, and is accelerating rapidly; the growth of narrow money (M_1) has accelerated from 64% annually at the end of 1986 to 90 percent at the end of April 1987; the stock exchange has shown conspicuous vigor (175% expansion in the first quarter); nominal wage adjustments are becoming more frequent and larger (20% in January, 20% in April, with a further increase expected in June); some necessary price adjustments, particularly for gasoline and fuel oil, have also added to cost-push inflationary pressures; and ex post real lending rates in the free credit market have fallen from more than 25% at the end of 1986 to around 0% in May 1987.

42. The 1987 fiscal program agreed with the IMF calls for an additional effort at the level of primary non-oil balance (defined as the public sector borrowing requirement net of all interest payments on public debt and revenues from public sector oil exports) amounting to about 2.3% of GDP. Public sector price adjustments, increases in tax revenue, and reductions in non-financial current expenditures, together with some projected recovery in oil export prices, are expected to yield a surplus on the primary balance (i.e., the "economic" fiscal deficit net of interest payments on the public debt and exchange losses) of around 5 to 5 1/2% of projected GDP. This would imply full absorption of the fiscal impact of the oil price shock in only two years. However, a sharp rise in real interest payments on public debt, which the Government believes likely, is reflected in a substantially higher ceiling on the operational deficit (defined as the PSBR net of the inflationary component of interest payments on the domestic public debt). Under the program, the operational deficit should not exceed 4% of GDP (compared with 1.7% in 1986). Likewise, the PSBR ceiling of 16.6% of GDP is slightly above the outcome in 1986. This is because the projected path of inflation is expected to remain above 1986 levels through at least the first half of 1987, thereby increasing nominal interest expenses on the public internal debt.

43. The fiscal component of the program would be complemented by a marked reduction in the growth of Central Bank net domestic assets (from 90% in 1986 to 68% in 1987, relative to note issue); an exchange rate policy which seeks to maintain the current narrow differentials prevailing between the free and controlled rates, while defending the gains in international competitiveness won last year; continued liberalization of foreign investment rules, including extension of the benefits of debt-equity swaps to Mexican

investors in priority sectors; continuing trade liberalization along the lines of the program announced in April 1986; and public enterprise restructuring. According to the program, gross reserve levels are planned to increase by some US\$5-6 billion, following two consecutive years of decline. By the end of 1987, they would be equivalent to about 4 1/2 months of imports. And the inflation objective is set at 85% on a 12-month basis.

44. In assessing the macroeconomic framework and its internal consistency, it appears that the large and partly unforeseeable shift in Mexico's foreign reserve position has altered the policy options. Reserve accumulations could easily exceed the amount targetted in the macroeconomic program by a wide margin, making it unlikely that the inflation objective could be achieved. Additional policy responses are called for to forestall the repetition of an outcome akin to that of the 1983-1985 period. Two measures in particular seem fundamental: accelerating trade liberalization and increasing public sector savings beyond the levels currently planned.

45. The three-year trade liberalization program which the Government announced in July 1986 has been properly viewed as a structural reform, mainly to improve the long-term efficiency of resource allocation. But in the present circumstances, there are additional short-term benefits to be derived from an acceleration of this program. By increasing imports, placing a lower ceiling on the rate of price increases, and absorbing excess capital inflows, a faster reduction of import barriers would help curb inflation, benefit consumers and efficient tradeable goods producers, and relieve upward pressure on the exchange rate.

46. In addition, a more active fiscal stance, aimed at raising the 1987 primary surplus by perhaps 1.5 - 2.0% of GDP above the level contemplated in the IMF stand-by, will likely be needed to generate the increased domestic savings that will finance the (non-inflationary) accumulation of reserves. Tightening fiscal policy (preferably accompanied by accelerated import liberalization) would relieve pressure on domestic financial markets and/or the need for financing the deficit from the inflation tax. A third measure would be to reduce central bank sales of short-term treasury debt. In this way, a gradual decline in interest rates on domestic financial instruments, could be managed, so as to deter further inflows of speculative short-term capital. (The Government has already begun to act in this area since April 1987). Fourthly, accelerating the on-going program of structural reforms, with a focus on strengthening the long-term financial position of public enterprises (e.g. through partial divestment, liquidation, or restructuring of the seven large-scale non-oil state companies having a significant budgetary impact), would set a clear direction toward reducing the burden of the public sector on the private sector.

47. Open market operations might seem to offer a quick, straightforward answer to the problem of excess liquidity. They could absorb excess liquidity more easily and rapidly than fiscal contraction. But in the absence of increased fiscal savings, open market operations place upward pressure on domestic interest rates, thereby widening the yield advantage of domestic over foreign assets. At a time when Mexico's balance of payments

position is strong, financial markets are expecting at least a temporary slowdown in the rate of peso depreciation, a factor which would reinforce the impact of open market operations in widening the yield advantage of domestic over foreign assets. This would only lead to more speculative capital, more monetization, and new inflationary pressures. For the present, then, the large overhang of external capital potentially seeking entry into local financial markets seems likely to neutralize the effectiveness of conventional monetary policy tools.

48. Lastly, absent any change in fiscal and trade policies, a passive monetary stance, i.e., one which permitted present market forces to determine the direction of interest rates and the exchange rate, could have deleterious consequences. Upward pressure on the real exchange rate and downward pressure on real interest rates, possibly for an extended period of time, would result. The consequences for resource allocation, the opening of the economy, a sustained reduction of inflation, and the balance of payments could, ultimately, be severe.

49. The principal factors in restoring growth, then, would be (i) a sustained decline of inflation via the policy measures discussed above, (ii) stability in overall macroeconomic signals (especially the real exchange rate), and (iii) clear, sustained movement toward a more open trade regime. With these ingredients, recovery could originate from the export-oriented sectors, such as in-bond industries, tourism, and fresh vegetable production, where investment and output have been growing rapidly since late 1985, and spread to the rest of the economy.

Accelerating Trade Liberalization

50. Beyond the macroeconomic arguments for accelerated trade liberalization, a number of structural factors suggest 1987 could be the year to complete this process:

- (a) although only about half as large at the end of 1986 as at the end of 1985, disparities in average implicit effective protection remained wide across industries (from -82% to 22%), meaning resource allocation remained significantly distorted;
- (b) major private and public sector decisions on investment are imminent;
- (c) the highly favorable balance of payments and real exchange rate positions minimize the risks of accelerated liberalization; and
- (d) the negative effects on employment would likely be small in the short-run, and become positive in the near-term as economic growth and exports picked up.

51. Phasing out non-tariff barriers, except for those based upon health, public welfare, or constitutional considerations (mainly oil), would mean that imports competing with nearly three-quarters of domestic production

official reference prices, many of which were lowered in February 1987, might be eliminated immediately, rather than waiting until the end of 1987, as currently planned.

Raising the Efficiency of Resource Use

52. The PAC's major emphasis on structural change reflects the Government's belief that prospects for sustained growth will depend more than ever on extracting progressively higher returns from available savings. Trade liberalization has been appropriately accorded a central role. But the Government is also well aware that new structural issues are coming to the fore. As trade liberalization progresses, complementary reforms are becoming more pressing. Examples include rationalizing industrial incentives while restructuring key industrial sectors and state-owned enterprises, aligning agricultural input and output prices to prevailing international levels, reducing and streamlining regulatory interventions in marketing, investment, production and pricing, reversing the process of financial disintermediation, dealing with the portfolio weaknesses of the commercial and development banks, and strengthening public sector management.

Rationalizing Industrial Incentives and Restructuring State-owned Enterprises

53. For more than 30 years, industrial policy has sought to channel resources into officially-preferred activities, regions, and firms. State-owned enterprises, now employing a million people and producing nearly one-fifth of all goods and services, extended public sector control over the production and distribution of many basic inputs. By their presence and actions, they have defined the environment for complementary private sector investment in sectors such as steel, sugar, petrochemicals, and food retailing and distribution. The incentives system was also modified by growing official intervention in price setting, marketing, and distribution, as well as through subsidies, tax breaks, preferential credit schemes, sector programs, external trade restrictions, etc.

54. During the 1950s, 1960s, and early 1970s, Mexico developed one of the largest and most diversified industrial bases among developing countries. When the stage of its industrial development was incipient and the private sector weak, non-market incentives and control programs may have played a constructive role in stimulating some infant industries. However, as controls and incentives multiplied rapidly in the 1970s and the economy became increasingly complex, important sectors of Mexican industry no longer achieved improvements in factor productivity, so that growth resulted uniquely from increases in the amount of factors employed, not from greater efficiency. In essence, the long-term effects of having shielded the industrial sector from competition, and of having widened the wedge between international and domestic prices, resulted in extensive, rather than intensive, growth. The opening of the trade regime, the easing of price controls, and the initiation of far-reaching restructuring operations in many state enterprises are a welcome start toward reversing this process.

55. In regard to restructuring, the new Law on Parastatal Entities, enacted in 1986, offers the potential to modernize management of the government-owned enterprises (GOEs) by authorizing the liquidation or disposal of non-priority firms, greater autonomy with accountability for GOE managers, and the physical, financial, and organizational reconversion of large GOEs. Implementation of the law now involves clarifying at the enterprise-by-enterprise level a number of pending issues, such as (i) raising transfer prices to levels nearer international prices (e.g., PEMEX/FERTIMEX), (ii) accelerating action on the management reforms incorporated into the debt transfer agreements reached between the federal government and some enterprises (e.g., FERTIMEX, SIDERMEX, Azucar S.A. de CV, and CONASUPO), (iii) establishing timetables for phasing out federal government transfers to cover enterprises' operating losses, and (iv) improving the capacity of state enterprises to self-finance a higher share of their investment as part of multi-annual sectoral financing and policy programs negotiated between the central administration and company management.

56. In certain capital intensive sectors (e.g., urban transport, steel, fertilizers, and sugar), public investments in the hundreds of millions of U.S. dollars are planned for the next several years. In some cases (e.g., the plate steel phase of SIDERMEX II and planned new urea fertilizer plants), it remains to be determined whether such investments are justified, either from the standpoint of their profitability measured in international prices, or their projected rates of return relative to urgently needed alternative investments for rehabilitating basic infrastructure (highways and railways, in particular) and improving human resources (education and job retraining).

57. Price controls have been rendered progressively less onerous for businessmen, and more flexible. With some significant exceptions, such as steel, controlled prices have been raised at a faster rate than inflation since December 1982. Approximately three quarters of the product categories previously under strict price controls are now subject to more flexible guidance. Nevertheless, as previously noted, an important share of non-oil output remains under some sort of price control, which, as the economy is increasingly exposed to outside competitive forces, is becoming anachronistic and a threat to the successful implementation of other economic reforms. The ability of certain key sectors, such as steel and agroindustry, to adjust to this new competition will require the rapid elimination of price controls or, at the very least, speedy adjustment of producer prices to international levels, plus some margin to reflect the final level of planned tariff protection.

58. In the area of taxation, the Tax Reform Act of 1987 should gradually reverse the sharp decline in the share of corporate taxes relative to GDP which has occurred since 1980. The new act accomplishes this through base broadening and fuller adjustment of taxable income and deductions for the effects of inflation. Collection efforts should likewise be strengthened by new incentives for states and municipalities to tighten their tax enforcement, and share in the additional proceeds. With respect to the fiscal incentives regime (notably CEPROFIS), tax subsidies have been

substantially reduced since 1981 to well under 0.5% of GDP in foregone revenues. Given the distortionary effects CEPROFIS appear to have had on past investment decisions (concentration of benefits in two dozen or so of the largest companies operating in sectors traditionally protected from imports), now might be the time to abolish them altogether.

59. Finally, systematic review of the regulatory environment for product marketing and distribution, labor-management relations, domestic content requirements, and other restrictive practices would almost surely reveal ways to reduce business uncertainty and avoidable delays, while promoting healthy competition.

Agricultural Reform

60. Substantial progress has been achieved in the past few years toward improving price incentives to agricultural producers while phasing out most subsidies to final consumers. Better incentives and favorable weather have helped reduce imports of basic commodities by around half since 1980. Nevertheless, price controls backed by quantitative restrictions (QRs) on exports and imports, credit controls and input subsidies continue to distort profitability and reduce efficiency. The elimination of most export and import QRs, now covering nearly all basic agricultural commodities, would strongly support the drive to raise agricultural exports. Raising producer prices to international levels, plus a margin of protection afforded by a tariff of, say, 20-30%, would bring currently negative levels of effective protection for agriculture into line with those planned for industry, thereby improving agriculture's internal terms of trade. Higher producer prices, would obviate the need for subsidies to inputs of water, power, and fertilizers, thereby reducing fiscal losses and discouraging waste. Low-income consumers would need to be protected by targeted subsidies, but mainly for a few basic commodities, like cooking oil and beans. (See also the discussion of social issues below). Subsidies for the distribution and retailing of agricultural commodities might also be phased out, particularly pan-territorial shipping tariffs, which tend to crowd out potential private sector competitors.

61. Institutional progress has also been made in reforming and decentralizing the operations of the Ministry of Agriculture. The proportion of public services delivered directly to farmers can still be greatly increased through reductions in excess staff and improved incentives and training for remaining employees. More research and extension workers need to be brought into regular contact with farmers. Performance bonuses, redeployment, and improved training are needed to upgrade the skills of public extension agents. And the role of farmers in planning, evaluating, and paying for extension and research services, both public and private, could be strengthened through farmer participation in local agricultural executive councils (as is already being tried in the Northwest Region), and through greater cost recovery. Finally, reforms in the credit policies of Banrural and other agricultural credit institutions to permit private as well as public extension agents to supervise loans would introduce healthy competition for technical support services.

62. As for basic infrastructure, the operation and maintenance of irrigation systems could be improved through better organization, increased water charges, and better financing at the district levels. A multi-year public investment program of high-return projects is essential. Evaluation and selection of irrigation projects have generally observed standards of economic viability. In other areas, such as rural development, improved systems for evaluating and monitoring investments are needed.

Financial Sector Reform

63. More than a decade of turbulent economic conditions has taken its toll on Mexico's financial system. High and variable inflation, sometimes inflexible interest rate and exchange rate controls, and uncertainty have led to intermittent capital flight and disintermediation since 1972. Chronic fiscal deficits and declining external credit availability have led to drastic restrictions on the flow of credit to the private sector, which by 1986 was receiving little more than one-fifth of total credit flows.

64. The commercial banking sector faces increasingly serious portfolio problems. Arrears cover over 6% of the loan portfolio, equivalent to roughly three-quarters of commercial bank capital and reserves. In reality, the problem may be even more serious. The volume of rolled over credits recorded as performing loans is considerably larger than the equity of many banks.

65. Given the relatively low profitability of commercial banks (the ratio of net profits to total assets was about 1.3% at the end of 1985), there is little scope for flexibility in lending practices. Commercial banks have sought to minimize credit risk through high collateral (sometimes up to 200% of the borrowed amount) and compensatory balance requirements (sometimes up to 20% of the loan face value). Yet, with few exceptions, their systems for analyzing the viability of projects being financed, and monitoring borrower performance once the loan has been drawn down remain far from satisfactory.

66. Like the commercial banks, since 1983 the 20 or so official development banks have undergone a gradual process of consolidation, merger, and restructuring, resulting in somewhat reduced overhead and personnel. Nevertheless, many continue to face serious problems of portfolio quality and internal management. They remain reliant on declining, but still substantial, credit subsidies (estimated at about 3.7% of GDP in 1986), directing their lendable resources into preferred sectors and activities, as determined by official guidelines.

67. Borrowers ineligible for preferred credit are obliged either to self-finance (difficult in a recession), draw from foreign assets (a growing trend in 1986/87), or borrow from the costly free credit market, where effective ex post annual ^{1984/85} rates on short-term loans were running 25 percentage points or more above inflation as recently as last December. The equity market is still in the early stages of development, and is limited to a few well-known names. Venture capital funds, which could supplement high-cost loan resources, do not exist as yet. Generally, the market for longer-term financial instruments has shrunk significantly in recent years.

68. As the lendable resources of banks declined in 1985-86, the stock exchange, with 30 brokerage houses and four independent brokers, and an informal inter-firm credit market have begun to offer competing financial services, mainly in short-term commercial paper. The absence of margin requirements and credit controls, and a less constraining regulatory environment, have enabled firms with excess cash balances and the brokerage houses to compete effectively with commercial banks.

69. Sustained and convincing progress toward restoring stable macroeconomic conditions will, obviously, be a sine qua non for undertaking structural financial sector reform. Of course, some measures, like maintaining interest rates for savers at or above foreign rates adjusted for devaluation, as monetary conditions indicate, would sustain the now rising demand for domestic financial assets. (M₅ rose at an annual rate of more than 20 percent in late 1986 and early 1987 after declining by 16% earlier in the year.) Other practical structural steps -- like the reductions in credit subsidies and the closure or merger of non-viable banks -- have been underway for several years and need to be continued.

70. Greater transparency in the management of credit subsidies might be accomplished through a national system of accounting, control, targetting, and budgetting, and through agreed timetables during which financial intermediaries would be expected to achieve acceptable targets for portfolio cost recovery. A reduction of official credit controls could be phased in as credit subsidies were phased down. Parallel efforts would be needed to deal with the weakened financial condition of many borrowers and to expand the use of lending instruments--such as loans with interest capitalization features --more suited to an inflationary environment. Financially-weakened borrowers with healthy long-term prospects may need comprehensive restructuring packages, including debt/equity swaps, the lengthening of maturities on existing loans, fresh working capital, and resources for investment in new capacity or modernization of existing fixed assets. The regulatory authorities could also urge banks to clear their backlog of non-performing or sub-par loans.

Public Sector Management

71. The pace of improvements in budgetary and public investment processes has picked up in the course of preparing the 1986 and 1987 budgets. Ministries and agencies are being asked to rank expenditure proposals by priority, to identify investments which would become operational during the current fiscal year, to propose investments over a two-year period, and to compare and analyze the level of appropriations versus actual outlays over the preceding two fiscal years. Monthly and quarterly spending ceilings are being set to comply with fiscal goals. And budgetary procedures for externally-financed development projects have been reformed to give implementing agencies a stronger incentive to request rapid drawdowns of funds available from abroad.

72. As experience is gained with these procedures, other steps should be considered. For example, multi-annual investment budgetting could be extended over a longer period. Clear, uniform standards for project preparation and evaluation, backed by more technical support and training for project analysts, would strengthen project analysis. (A centralized fund for project preparation might offer real incentives for the adoption of these procedures). Effective high-level oversight of federal projects requires greater comparability of data (at least within sectors) on anticipated economic rates of return, projected cost/benefit ratios, past performance, financing plans, etc. Finally, the duplication of project responsibilities between various secretariats and ministries (such as in ports) requires major attention.

Reassessing the Policy Framework for its Social and Employment Effects

73. Steady, determined execution of the growth-oriented adjustment program will be the most important contribution the Government can make toward improving the well-being of the poor. When inflation is brought down significantly, it is the poor who benefit because, unlike the affluent who find ready alternatives to cash, the poor have few means to protect their meager earnings from the ravages of inflation. Secondly, to the extent that the public sector's borrowing requirements are reined in, more and cheaper credit for the private sector will speed recovery and the generation of productive employment for the poor, who are often the first fired and last hired. Thirdly, a shift toward outward-oriented growth seems likely to favor export activities, which studies have shown are 35-40% more labor-intensive on average than industries which serve mainly domestic markets.

74. Nevertheless, the sharp deterioration in Mexico's international terms of trade, as well as the costs of dealing with the consequences of the 1982 economic crisis, may have led to some worsening of the situation of the poorest, in absolute, if not in relative terms. Between 1980 and 1986, real per capita GDP declined by approximately 10%, and real per capita consumption by 13%. Wage earners, including the urban poor, were among the hardest hit, having seen their remuneration as a share of GDP decline by about one-fifth. In rural areas, where relative poverty is most serious, the effects of the recession may have been attenuated by the somewhat stronger performance of agriculture (1.4% average annual growth during 1983-1986, compared to -0.7% for the economy overall).

75. In various ways, the present Government has sought to alleviate the impact of recession and adjustment on the economically disadvantaged. Between 1983 and 1985, while overall public spending on goods, services, and investment was falling dramatically in real terms, spending on education, health, and social security as a share of non-financial public outlays actually increased slightly from 22.7% to 25.3%. Some social indicators also continued to improve, such as the rate of literacy, public health service coverage, and the number of social security beneficiaries. Despite the devastating effects of an earthquake, the number of public hospitals rose by 70, and the number of subsidized school lunches by 34% to over 200 million

annually. Extension of the network of piped water and sanitation facilities benefitted an additional 8-10 million inhabitants, while the rate of new housing construction increased by 50%. Still, as in many countries which have faced severe fiscal constraints, public sector social spending at the national level has declined as a proportion of GDP since 1982. Furthermore, the most redistributive expenditures within education and health (i.e., those for pre-primary and primary education, and for low-income health programs) have declined more than expenditures on higher education and health services benefitting primarily middle-income groups.

76. This trend toward reduced outlays on social services can be halted, or even reversed, while remaining within overall constraints on public spending. A significant reordering of public policy and spending priorities would be needed, but in ways which would not necessarily interrupt adjustment, nor postpone the recovery of growth.

77. Past experience with public policy management in Mexico and in many other Latin American countries suggests two pertinent observations:

(i) As the sphere of public sector involvement expanded rapidly in the 1970s beyond health, education, nutrition, basic infrastructure, and other traditional areas, the efficiency of the state action in new areas, like manufacturing, was increasingly questioned. The associated shift in budgetary priorities and eventual constraints on further public sector expansion resulted in a crowding out of public spending on social and other traditional government functions. (For example, despite an increase in the share of public spending on social objectives since 1982, in absolute terms, real per capita social expenditures in Mexico have declined by about 30%).

(ii) While the poor undoubtedly benefitted from some kinds of public spending (and Mexico's sharply improved social indicators over the past 15 years bear witness to this fact), middle and upper income groups gained the most. First, public employment expanded hugely, benefitting mostly higher skilled individuals. Secondly, global government subsidies for electricity, fuel, food, housing, and credit flowed mainly to middle and upper income groups, which were their principal consumers. Thirdly, educational expenditures were slanted heavily toward secondary and university education, while the quality of primary education, especially in rural areas, suffered severely for lack of resources. Fourthly, the coverage of the social security pension system expanded, as earlier noted, but remained heavily focussed on the relatively better off inhabitants of the cities.

78. Hence, the scaledown of the public sector now underway represents a watershed -- an opportunity to refocus public policy on doing a better job in the traditional areas, while allowing more scope for the private sector to lead in the expansion of production activities. Some further cuts in public spending are still achievable through reductions in untargetted subsidies, in

public investment projects of questionable economic rationale (admittedly far fewer than previously, but still to be found), in the number of public employees, and in transfers to money-losing state enterprises. There is also scope for further increasing public revenues through sustained improvements in tax administration and base broadening, and through the continued replacement of quantitative import restrictions with moderate tariffs. These changes could render feasible gradual increases in spending on social services and basic infrastructure, while allowing the real budgetary deficit to decline.

79. However, an increase in social spending would be of little avail if not matched by efforts to improve the efficiency of social programs. For example, as global subsidies are phased out, targetted subsidies could be phased in:

- (i) for food, through a program of food stamps distributed through CONASUPO's rural and peri-urban stores located in low-income neighborhoods (DICONSA and LICONSA), through the poverty-oriented health programs (COPLAMAR and PRODIAP), and, possibly, through the subsidized school lunch program. A comparatively modest increase in food subsidies would bring major benefits to the poorest, if they were carefully targetted. For example, preliminary World Bank staff work suggests that, if funding for the food stamp program could be raised from the current US\$60 million to around US\$250 million annually (about 0.2% of GDP), and overhead could be held to a minimum, this might be sufficient to raise the food purchasing power of the poorest 16 million people in Mexico to about the level of 1983, i.e., before food subsidies were phased out. Permitting the stamps to be used to purchase a broader variety of foods important to the diet of the poor, such as beans, eggs, bread, and vegetable oil, would also be preferable to the current tortilla-based system. One reason is that the rural poor generally do not purchase commercially-prepared tortillas, and thus have scant use for the current food stamps. Nor are the rural-based poor likely to be reached in large numbers by the present distribution system, which is urban-centered and, in part, targetted on less needy beneficiaries.
- (ii) in housing, about 85% of all credit subsidies are presently channeled into the PFV-FOVI and payroll fund programs, which principally benefit middle-income families. The elimination of, or substantial cutbacks in, these subsidies would permit expansion of housing programs for the poor (preferably through rent supplements rather than new credit subsidies, which experience has shown are nearly impossible to target).
- (iii) in utilities, such as water and electric power, through so-called "lifeline" rates, which would differentiate more sharply than at present between small volume (and generally poorer) consumers and

others. By placing a low ceiling on the levels of consumption which would qualify for a subsidy, costs and waste should be containable within acceptable limits. And while cross subsidization is admittedly a sub-optimal solution, given the severity of extreme poverty and the scarcity of budgetary resources, it may be the least objectionable and most feasible method of protecting access to basic services. Since rates charged to large-scale consumers are still quite low by international standards (despite the increases of recent years), there may be further scope to act in this direction.

- (iv) in fuels, through subsidized sales of heating gas, which is the only fuel for which the poor have a high demand, channelled through distributors in low-income neighborhoods, while other consumers would be asked to pay full price.

80. A shift in educational expenditures toward pre-primary, primary, and secondary education would be another step of major benefit to the poorest. Their social rate of return is much higher than the return on university education. In fact, ten primary school pupils can be trained for the cost of one university student. And, at the university level, only one out of six university students at the largest state university (UNAM), for example, was found to have come from a family with income falling below the official poverty standard, while a far larger proportion of elementary students are in that category. Recently, the Government sought to introduce tightened entrance requirements in an effort to curb the growth of expenditures on higher education. Gradual increases in tuition charges would also be desirable. For qualified lower income students, the impact of these adjustments could be alleviated at a comparatively modest cost through a targetted program of scholarships and student loans. The newly-generated resources could be applied to primary education, especially in rural areas where so much remains to be done. One Bank of Mexico study estimated that if tuition fees at UNAM were raised in real terms closer to those prevailing at private institutions of higher education, the University would run a considerable surplus instead of the present deficit, which absorbs nearly one-tenth of the national educational budget.

81. In the area of health, there is substantial room for increasing user fees on an ability-to-pay basis, as well as deductibles and co-payments among the insured. Currently, user fees provide only about 1% of total health service revenues. States and municipalities, which under the decentralization program are assuming a major responsibility for public health care management, could strengthen their support by raising currently low property and other local tax rates, and channeling some of these incremental revenues into the rural and poverty-oriented COPLAMAR basic health care system. There would also appear to be some scope for expanding the coverage of COPLAMAR (and PRODIAP) services through improvements in efficiency. For example, reduced reliance on expensive medical specialists and advanced technology would permit greater emphasis on low-cost outreach services staffed by para-medicals and trained community leaders.

82. Searching for ways to enhance the tax system's impact on the demand for employment would also be desirable. Some features of the system, such as payroll taxes and accelerated investment depreciation allowances, appear to penalize the use of labor inputs and/or provide excessive implicit subsidies to capital. However, a resolution of these issues will require more study, since an effective tax system must also generate revenues efficiently, especially during the present period of austerity. In the short-run, more experimentation with efficient labor-intensive methods of executing public works also could be of benefit to the underemployed.

83. Finally, there is an urgent need to develop improved informational systems, including key indicators of poverty, basic health, nutritional, and educational trends, and a closer monitoring of the results being achieved in public social programs. (For example, the delay in releasing the National Survey of Household Income and Expenditures of 1983-84 has deprived nutrition policymakers and the informed public of a potentially valuable tool for determining how to target food subsidies more effectively.) In this way, the Government would be better equipped to adopt timely measures ensuring that, that, at the very least, there is no backsliding in the delivery of basic services to the poorest. For instance, textbooks, drugs, and the like are very small items in the budget. Yet shortages of these items can cripple whole segments of delivery systems.

Medium Term Macro-economic Prospects

84. The implications of the major macro-economic policy options available to the authorities can be illustrated by three scenarios. These scenarios should not be construed as attempts to predict the future, but rather as devices for highlighting quantitatively the effects of different policy mixes. All of the scenarios operate under common assumptions about the international environment, namely that world economic growth will remain sluggish (2.0-2.5% annually in the OECD countries), that after a temporary acceleration of international inflation in 1987, it will subside to the 4% annual level during the remainder of the decade, and that interest rates, as represented by the LIBOR, will remain stable at around their average levels of 1986. Average oil export prices are projected at about US\$15/barrel in 1987, and then rise in line with world inflation through 1990. Finally, it is assumed that no significant, "across-the-board" protectionist measures will be taken against Mexico's exports, although isolated incidences may continue. Needless to say, the uncertainties about the international outlook must be taken into account in the subsequent discussion of the scenarios.

85. Although each scenario entails assumptions about changes in a broad range of domestic policy tools, in their simplest terms, they reduce to a consideration of three alternatives: emphasizing accelerated trade liberalization (Scenario I), emphasizing a stronger fiscal effort (Scenario II), or (Scenario III) continuing the policy mix in effect during the early months of 1987.

86. In general, the analysis concludes that the first two scenarios are viable, albeit with some differences in outcome, while the third scenario probably is not. In the first scenario, a telescoping of the three-year trade liberalization program into the second half of 1987, accompanied by a fiscal program in line with the stand-by agreed with the IMF, would likely produce the best trade-off between steadily recovering output growth (to 5-6% annually in 1989-90) and the path of inflation, which could slow sharply (to, perhaps, the 30-40% range in 1988). At the same time, the balance of payments, supported by an exchange rate close to the real level of the end of 1986, would remain strong. Despite a sharp rise in anticipated real import growth to nearly 10 percent annually, the trade balance surplus would hold at around 5% of GDP through 1990, since non-oil exports would grow at similar rates. The spread between domestic and foreign interest rates adjusted for devaluation would continue to narrow, easing the rate of capital repatriation from the private sector. Lastly, external financing requirements would decline to less than US\$1 billion in 1989-90.

87. The second scenario assumes a deeper fiscal adjustment (an improvement in the non-oil primary fiscal balance about 1.5% of GDP more than is foreseen in the Government's current program), but a trade liberalization program in line with the program announced by the Government in July 1986 (i.e., removal of the quotas covering an additional 9% of domestic final demand, the elimination of import reference prices, and the second-stage reduction of the tariff ceiling to 35% during 1987, followed by additional quota and tariff reductions in 1988). The additional fiscal effort of 1.5% of GDP would likely be several orders of magnitude smaller than private sector repatriation of capital plus the current account surplus now accumulating in reserves at an annual rate of 8-9% of GDP. So some appreciation of the real exchange rate (10-15% in 1987) is also assumed. The combined effect of a slowdown in net export growth and more restrictive fiscal policies would likely mean a slower economic recovery vis-a-vis the first scenario (3-4% vs. 4-5% per annum during the 1987-90 period). Heavier reliance on restrictive demand management policies to reduce inflation, as opposed to policies expanding the supply of goods, suggests that progress against inflation would be somewhat slower than in the first scenario. As in the first scenario, the balance of payments would remain strong, although the reduction in net external funding requirements would be more gradual, declining to perhaps US\$2 billion annually in 1989-90.

88. Finally, in Scenario III, it is assumed that fiscal effort would be slightly below the rate of improvement in the non-oil primary balance targetted in the current stand-by (by about 1% of GDP), while the trade liberalization program would be in line with current plans (see Scenario II above). Output growth might pick up to about a 3 percent rate in 1987, in line with Scenario I and higher than in Scenario II. This growth would be supported, not by higher export or investment growth, but mainly by higher consumption. However, inflation would accelerate during 1987, and the exchange rate, propped up by the surge in capital inflows, might appreciate by 5% or so in real terms. In 1988-90, inflation could accelerate to unsustainable levels, precipitating a highly overvalued exchange rate,

balance of payments difficulties, and by the end of the decade, a marked slowdown in growth. External financing needs, which are projected to be highest in the third scenario, would be unlikely to be met, necessitating corrective policy adjustments before the end of the decade.

89. There is no suggestion that any of these scenarios is more likely than any other. Since the Government is considering further policy steps to cope with inflation, Scenario III has no particular significance. Nevertheless, the presentation of these scenarios is intended to highlight the critical variables and policy alternatives in the current situation, and to underline the positive consequences of prompt additional action.

CHAPTER I

AFTER THE OIL EXPORT BOOM: REFASHIONING A STRATEGY FOR DEVELOPMENT

1. Since the eruption of Mexico's financial crisis in August 1982, there has been a growing recognition, both inside Mexico and internationally, that a return to sustainable growth would require not only stabilization of the economy, but also far-reaching structural reform. This perception gained ground after Mexico's original adjustment program faltered in 1985, and became a central issue following the collapse of international oil prices in early 1986. The accelerating pace of the Government's stabilization and structural reform efforts since mid-1985 reflects a recognition of the urgency of maintaining a high level of policy effort.

2. As is customary in Bank economic memoranda, the focus of this report is on Mexico's internal efforts to overcome the macro-economic crisis of 1982 and lay the groundwork for a new, outward-looking development strategy. Nevertheless, it is well to recall that, virtually from the beginning, this adjustment process has been carried out under external conditions unfavorable to a degree not witnessed since the Depression of the 1930s. Mexico's leading export, oil, has declined by nearly two-thirds in price since 1981, precipitating a 44% decline in the country's international terms of trade through 1986. Simultaneously, international interest rates were reaching their all-time peak in 1981, and, corrected for the decline in Mexico's export prices, averaged over 20% annually in real terms over the next five years.^{1/} Moreover, from the second half of 1982, voluntary lending to Mexico halted abruptly, after having sustained a steep upward trend over the preceding decade. Net capital inflows, excluding private short-term capital and errors and omissions, declined precipitously from US\$23 billion in 1981 to US\$0.4 billion in 1986, despite three concerted financing efforts in 1983, 1984-85, and 1986. Thus, the pro-cyclical character of capital flows, particularly from private foreign creditors, aggravated the internal financial crisis and constituted an additional factor to which Mexico had to adjust.

3. Such a radical drop in external financing would have been difficult to handle under any circumstances, but in this case its negative effects were compounded by sizeable increases in net factor payments abroad. After rising by 54% in 1981, these payments peaked at US\$12.5 billion in 1982, and have oscillated between US\$7.5-10.0 billion annually since then. Taking into account total medium and long-term capital inflows of US\$17 billion, in net terms, Mexico transferred resources abroad amounting to approximately US\$31 billion during the 1982-1986 period (always excluding the impact of short-term private capital movements and errors and omissions). As a share of GDP, these net transfers were equivalent to about 4% of GDP, absorbing

^{1/} To illustrate, the interbank offer rate on 6-month euro-dollar deposits averaged nearly 10% per annum during the 1982-1986 period, while Mexico's export prices, using 1981 product weights, declined by 10.7% a year. A straightforward computation yields an average real interest rate of about 23% per annum for this period.

about 15% of domestic savings and nearly one-quarter of export earnings. To cite one well-known historical case, these transfers were about 1.6 times larger in relation to national income than the war reparations paid by Germany after World War I, and double Germany's effort in relation to exports. To accomplish this transfer, Mexico generated a cumulative trade surplus of US\$48 billion over the last five years, equivalent to 6.3% of GDP. This was proportionally more than three times the trade surpluses generated by Germany during 1929-32, when the pressures of its war reparations reached their peak.

4. The size and the protracted nature of these outward transfers of resources, against the backdrop of particularly unfavorable world economic conditions (including an exceptionally slow world economic recovery and the growth of protectionism), have severely complicated Mexico's efforts to achieve a successful, growth-oriented, structural adjustment process. The transfers have siphoned off domestic saving, thus contributing to the growing gap which has emerged in recent years between Mexico's rising domestic savings effort and its sharply falling investment coefficient.

5. In the following pages of this chapter, a review of the key policy recommendations of the previous country economic memorandum (CEM), an overview of recent economic developments in Mexico, major policy achievements, the new growth-oriented adjustment program, and longer-term economic issues is provided. Subsequently, Chapter II sketches the main social costs of the financial crisis and its aftermath, suggesting a number of measures needed to improve the living standards of the poorest, while respecting the constraints imposed by the stabilization program.

Developments Since the Last Country Economic Memorandum

6. The last country economic memorandum was distributed in May 1984 (Report 4996-ME). It reviewed the events leading up to the financial crisis of August 1982, identifying as fundamental causes of that crisis: (i) the premature termination of an ongoing but incomplete stabilization program in 1977; (ii) a reversion to public sector-led expansionary demand policies, which absorbed Mexico's burgeoning oil, export revenues and large additional amounts of external finance; (iii) the policy decision to defend an increasingly overvalued peso during 1980-1982 through additional massive external borrowing, which resulted in a loss of international competitiveness in non-oil sectors of the economy, a growing trade and current account imbalance, capital flight, and a balance of payments crisis; and (iv) the deterioration of previously favorable external growth, interest rate and terms of trade conditions from 1980 onward.

7. The Government which assumed power in December 1982 undertook major and immediate efforts to redress the critical economic situation. A three-year Extended Fund Facility (EFF) program was promptly concluded with the IMF. The 1984 CEM noted that considerable progress had been achieved during 1983, as the fiscal deficit was halved, inflation was trending strongly downward, external debt rescheduling had been handled in orderly fashion, external reserves partially rebuilt, and signs of a private sector recovery were becoming clear. Nevertheless, the report noted that much remained to be done, with special emphasis on the need to:

- (i) complete the stabilization process, particularly via further reductions in the fiscal deficit;
- (ii) boost non-oil export earnings, so as to reduce Mexico's reliance on foreign borrowing and improve the country's credit standing;
- (iii) rely in the future on a strategy of private, rather than public sector-led growth, with particular attention to improving the level and stability of trade incentives to industry and agriculture through import liberalization and realistic exchange rate policies; and
- (iv) the adoption of coordinated policies to boost employment and to reduce perverse incentives for capital-intensive development, mainly through appropriate adjustments in wage, interest rate, and public sector investment policies.

8. These policy recommendations continue to be relevant mid-1987. Of course, additional issues have now emerged, such as devising a strategy for coping with the aftermath of Mexico's largely successful adjustment to the collapse in oil export revenues during 1986, including substantial foreign reserve accumulations and associated inflationary pressures. But, the recommendations of the 1984 CEM provide a useful starting point for reviewing how the Government dealt with the crisis after 1983.

Completion of the Stabilization Process

9. Table I.1 provides a summary overview of the macroeconomic balances leading up to the 1982 crisis and in the years which followed. Two points deserve special note. First, the public sector, which was a net saver generating a current surplus equivalent to nearly 2% of GDP in 1980, had by 1982 become a net dissaver of considerable magnitude (7.8% of GDP). Public sector investment was maintained at an elevated level (10.8% of GDP on average), so that the net financing requirements of the public sector (investment-saving gap) grew rapidly from 7.6% of GDP in 1980 to nearly 18% in 1982. Secondly, to finance this gap, the public sector called upon both domestic private and foreign savings. Already saving at levels exceptionally high by international standards (22-24% of GDP), domestic private savers were induced to increase resource transfers to the public sector, resulting in sharp reductions in private investment, which plunged from 19% of GDP in 1980 to around 11% in 1982. This was, doubtlessly, a major factor behind the abrupt slowdown in real economic growth, which declined from 8.3% in 1980 to -0.6% in 1982. However, public sector financing requirements surpassed what even the domestic private sector could provide, leading to a growing reliance on foreign savers to fill the gap. As measured by the current account deficit, foreign saving financed nearly one-fifth of gross domestic investment in 1981-82, compared with roughly one-seventh in 1980.

10. The major progress achieved during 1983 in lessening the macro economic imbalances, is evident from Tables I.1 - I.3. An increase in current government revenues, on the order of 4% of GDP, reflected mainly higher export revenues from the state oil company and increases in domestic value-added and oil taxes. A decline in current public expenditures of over 3% of GDP was made possible through reductions in subsidies, salaries, and

Table I.1: MEXICO: MACROECONOMIC BALANCES, 1980-1986
(Percentage of current GDP)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
1. <u>Foreign Savings</u>							
Current Account Balance	-4.2	-6.7	-3.4	3.7	2.5	0.4	-1.0
2. <u>Private Sector</u>							
2.1 Gross Domestic Investment	19.2	16.0	11.3	12.3	14.1	15.2	13.6
2.1.1 Fixed Investment	15.2	12.7	12.3	9.4	11.2	10.0	n.a.
2.1.2 Change in Stocks	4.0	3.3	-1.0	2.9	2.9	5.2	n.a.
2.2 Gross National Savings ^{1/}	22.6	23.9	25.6	24.4	23.8	24.6	27.7
2.3 Investment-National Savings	-3.4	-7.9	-14.3	-12.1	-9.7	-9.4	-14.1
3. <u>Public Sector</u>							
3.1 Gross Domestic Investment	9.4	13.2	9.9	8.0	7.5	6.1	5.3
3.2 Gross National Savings	1.8	-1.4	-7.8	-0.4	0.3	-2.9	-9.8
3.2.1 Current Revenues	28.0	28.0	29.8	34.1	33.0	32.5	30.8
3.2.2 Current Expenditures ^{2/}	-26.2	-29.4	-37.6	-34.5	-32.7	-35.4	-40.6
3.3 Investment - National Savings	7.6	14.6	17.7	8.4	7.2	9.0	15.1
4. <u>Public and Private</u>							
Investment-National Savings	4.2	6.7	3.4	-3.7	-2.5	-0.4	1.0
<u>Memorandum Item:</u>							
Share of Gross Domestic Investment Financed by Foreign Savings (%)	14.7	22.9	16.0	-18.2	-11.6	-1.9	5.3

^{1/} Includes involuntary savings (inflation tax).

^{2/} Includes interest payments on public debt.

Sources: Secretariat of Finance and Public Credit; Secretariat of Programming and Budget; IMF, and IBRD staff estimates.

Table I.2: MEXICO: KEY MACROECONOMIC INDICATORS, 1980-1986

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> (prel.)
<u>Growth</u>							
Real GDP Growth (%)	8.3	8.0	-0.6	-5.3	3.7	2.8	-3.8
<u>Inflation</u>							
GDP Deflator (%)	28.7	27.2	61.2	92.1	61.8	54.4	77.7
CPI Index (year-end %)	29.8	28.7	98.9	80.8	59.2	63.7	105.7
<u>Fiscal</u>							
Public Sector Borrowing							
Requirement (% of GDP)	7.9	14.4	18.4	9.9	8.6	9.9	16.1
Operational Balance (% of GDP) ^{1/}	-5.2	-11.3	-7.2	1.2	1.0	-0.8	-1.7
Primary Balance (% of GDP) ^{2/}	-4.0	-9.4	-5.1	5.1	5.0	3.3	2.3
<u>Monetary Aggregates</u>							
Currency and Notes (% of GDP)	4.6	4.8	5.4	4.0	3.9	3.8	4.0
Financial Savings M ₂ (% of GDP)	31.9	34.7	38.7	34.7	34.7	32.5	37.7
<u>Balance of Payments</u>							
Resource Balance (Exports less Imports of Goods and Non-factor Services in US\$b)	-4.3	-6.1	6.0	14.3	13.9	9.2	5.7
<u>External Debt</u>							
Net Interest Payments on External Debt (US\$b) ^{3/}	-5.1	-8.1	-10.9	-8.9	-9.7	-8.5	-7.2
Net External Financing to Public Sector (US\$b)	4.8	17.8	6.8	4.7	2.2	0.4	-0.1
Total External Debt (US\$b)	51.4	75.0	89.6	93.1	96.2	97.4	101.0
<u>Foreign Reserves</u>							
Value (in US\$ billions)	3.8	4.8	-2.0	3.5	6.5	3.1	2.0
Import Cover of Net Official Foreign Reserves (months)	1.8	1.8	-1.2	3.3	4.8	2.0	1.5
<u>Labor Markets</u>							
Formal Employment (millions)	18.8	20.0	19.9	19.6	20.1	20.3	19.9
Labor Force (millions)	20.0	20.7	21.4	22.2	23.0	23.8	24.7
Employment Gap (%) ^{4/}	6.0	3.4	7.0	11.7	12.6	14.7	19.4

^{1/} Defined as the public sector borrowing requirement net of the inflationary component of interest payments on the domestic public sector debt.

^{2/} Defined as the balance between public sector revenues and non-financial outlays (i.e., excluding payments of interest on the public debt and exchange losses).

^{3/} Gross interest payments on external debt minus interest earnings on foreign exchange-denominated assets.

^{4/} Workers who are either employed in the informal sectors of the economy, are presumed to have emigrated, or are unemployed. Calculated as a percentage share of the labor force.

Sources: Secretariat of Finance and Public Credit; the Secretariat of Programming and Planning, the Central Bank; the IMF; and IBRD staff estimates.

Table 1.3: MEXICO: KEY INCENTIVES INDICATORS, 1980-1986

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> (est.)
<u>1. Real Effective Exchange Rate 1/</u>							
Index (1976-81 = 100)	93.4	82.9	109.9	129.8	110.4	107.9	148.9
Annual change (%)	-	-12.2	32.6	18.1	-14.5	-2.3	33.0
<u>2. Real Interest Rates (%)</u>							
Three-month Treasury Bills 2/	3.5	5.2	-23.5	-2.3	2.5	9.2	15.4
Preferential Mortgage Loans	-13.1	-12.1	-30.1	-40.7	-27.7	-24.2	n.a.
<u>3. Index of Real Wages (1980=100)</u>							
Minimum Urban Wage	100.0	101.6	91.9	75.4	69.8	69.0	63.5
Manufacturing Salary & Benefits	100.0	103.5	104.9	80.7	75.5	76.2	71.2
<u>4. Ratios of Domestic Guaranteed Agricultural Prices to International Prices 5/</u>							
Corn	1.56	1.58	1.29	1.14	1.40	1.28	1.05 <u>3/</u>
Soybeans	1.17	1.54	1.08	0.96	1.17	1.24	0.85 <u>3/</u>
Sugar	0.22	0.69	0.97	0.62	1.28	1.61	0.85 <u>4/</u>
Rice	0.63	0.77	0.77	0.83	1.03	1.00	0.74 <u>3/</u>
Wheat	0.83	1.00	0.72	0.88	1.00	0.82	0.84 <u>4/</u>

Sources: IMF: and IBRD staff estimates.

1/ Changes in the real average annual level of the controlled rate.

2/ Annualized ex post end-year rate deflated by the trailing 3-month movement in the Consumer Price Index.

3/ November 1986

4/ April 1986

5/ CIF, landed

foreign exchange losses (equivalent to 5% of GDP), which were partially offset by increases in interest payments. Investment was also cut back by about 2% of GDP. Altogether, these measures lowered the public sector investment-savings gap to around 8% of GDP in 1983, i.e., less than half the level of 1982. All of this gap was financed by the private sector. In addition, the equivalent of nearly 4% of GDP was transferred to the external sector to cover service of over US\$90 billion in external debt and to rebuild foreign reserves, which had been nearly exhausted by the end of 1982.

11. The pressure on the balance of payments was eased by a tightening of fiscal policy combined with large step-wise adjustments in rates of peso depreciation during 1982-83. The so-called "controlled" rate was devalued by a cumulative 57% depreciation in real trade-weighted terms, while the rate for financial transactions was devalued by an even greater margin (see paragraph 27 for an explanation of the dual exchange rate system). These devaluations, together with tighter import restrictions and monetary policy, and the contraction of domestic aggregate demand, markedly improved the trade balance and sharply reduced capital flight (Tables I.4 and I.5). Interest rate ceilings were raised sufficiently to offer domestic savers a large premium over foreign-currency denominated savings instruments, when corrected for movements in the "financial" exchange rate. However, they remained highly negative in real terms.

12. The magnitude of the crisis had required the adoption of measures bearing a high near-term economic and social cost -- twelve-month inflation having remained above 80% for the second consecutive year, and the employment gap^{2/} rising to nearly 12% of the labor force, even as the level of average real wages was falling by one quarter, and output by more than 5%. But by the end of 1983, the economy appeared to be well launched toward its goal of sustainable, low-inflationary growth, and toward renewed access to voluntary international finance.

13. The economic stabilization program remained in force throughout much of 1984, but began to lose momentum as the end of the year approached. The public sector investment-savings gap (roughly equivalent to the "economic" fiscal deficit) declined further to 7.2% of GDP, although the deficit was larger than the target fixed in the Extended Fund Facility Program (EFF). Current revenues slipped slightly to 33% of GDP as a consequence of a decline in world oil prices, but this was more than offset by a decline of 1.8% of GDP in current spending. Although declining from 92% in 1983 to 62% in 1984, inflation remained far above the EFF target for the second year in a row.

14. Several factors accounted for the slowness of the decline in inflation, beyond the persistence of a significant fiscal deficit. Interest rates gradually shifted in 1983 from highly negative to mildly positive real levels in early 1984 (Table I.3), but at a pace which proved inadequate to sustain a recovery in financial savings. Massive foreign reserve accumulations stemming from the rapid improvement in the trade balance

^{2/} Defined as the difference between the number of workers considered as employed in official statistics and the size of the labor force, expressed as a percentage of the latter.

Table I.4: MEXICO: KEY EXTERNAL TRADE INDICATORS, 1980-1986
(1980 = 100)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> (est.)
1. <u>Volume Index of Major Exports (1980=100)</u>							
Petroleum Products	100.0	128.9	167.9	177.7	180.1	170.4	148.0
Services	100.0	104.3	117.9	128.0	141.3	123.7	133.0
Manufacturing	100.0	114.2	95.8	159.0	192.2	186.4	223.7
Agriculture	100.0	109.3	106.5	99.5	110.5	110.9	198.0
2. <u>Export Shares (%)</u>							
In World Trade	0.8	1.1	1.2	1.3	1.4	1.3	n.a.
Industrialized Country Imports	1.0	1.3	1.6	1.7	1.7	1.7	n.a.
3. <u>Manufactured Exports (%)</u>							
Real Growth Rate (%)	-	14.2	-16.9	65.9	20.9	-3.0	20.0
Value as Share of Total Exports (%)	11.8	11.0	9.3	14.0	16.1	16.9	27.5
4. <u>Merchandise Imports</u>							
Real Growth Rate (%)	100.0	99.9	68.3	39.5	50.3	59.0	51.5
	-	-0.1	-41.6	-42.2	27.3	17.3	-12.7
5. <u>Commodity Terms of Trade (1980=100)</u>							
Annual Change (%)	100.0	105.3	94.5	87.2	86.0	81.0	58.9
	-	5.3	-10.3	-7.7	-1.3	-5.9	-27.3

Sources: Appendix Table 3.3.3; Central Bank of Mexico; Secretariat of Agriculture; CONASUPO; the IMF; and World Bank staff estimates.

Table I.5: MEXICO: BALANCE OF PAYMENTS, 1980-1986
(in billions of U.S.dollars)

	1980	1981	1982	1983	1984	1985	1986 (Prel.)
Resource Balance	-4.3	-6.1	6.0	14.3	13.9	9.2	5.7
Exports of Goods and Non-Factor Services	20.9	26.0	26.2	27.2	30.1	27.8	22.0
<u>Merchandise (f.o.b.)</u>	<u>15.5</u>	<u>20.1</u>	<u>21.4</u>	<u>22.3</u>	<u>24.1</u>	<u>22.0</u>	<u>16.0</u>
(Petroleum)	(9.7)	(14.1)	(16.4)	(15.9)	(16.4)	(14.8)	(6.3)
(Non-Petroleum)	(5.8)	(6.0)	(5.0)	(6.4)	(7.7)	(7.2)	(9.7)
Non-Factor Services	5.4	5.9	4.8	4.9	6.0	5.8	6.0
(Border Trade)	(1.5)	(1.6)	(1.2)	(1.1)	(1.3)	(1.2)	(1.1)
(Tourism)	(1.7)	(1.7)	(1.4)	(1.7)	(2.0)	(1.7)	(1.6)
(In-Bond Industry)	(0.8)	(1.0)	(0.9)	(0.8)	(1.2)	(1.3)	(1.7)
(Other)	(1.4)	(1.6)	(1.3)	(1.3)	(1.5)	(1.6)	(1.6)
Imports of Goods and Non-Factor Services	-25.2	-32.1	-20.2	-12.9	-16.2	-18.6	-16.3
<u>Merchandise (f.o.b.)</u>	<u>-18.9</u>	<u>-23.9</u>	<u>-14.4</u>	<u>-8.5</u>	<u>-11.3</u>	<u>-13.2</u>	<u>-11.4</u>
(Public Sector)	(-7.0)	(-8.8)	(-5.3)	(-4.2)	(-4.8)	(-4.4)	(-3.2)
(Private Sector)	(-11.9)	(-15.1)	(-9.1)	(-4.3)	(-6.5)	(-8.8)	(-8.2)
Non-Factor Services	-6.3	-8.2	-5.8	-4.4	-4.9	-5.4	-4.9
(Border Trade)	(-2.0)	(-2.5)	(-1.4)	(-1.1)	(-1.5)	(-1.6)	(-1.4)
(Tourism)	(-1.1)	(-1.6)	(-0.8)	(-0.4)	(-0.6)	(-0.6)	(-0.4)
(Other)	(-3.2)	(-4.1)	(-3.6)	(-2.9)	(-2.8)	(3.2)	(-3.1)
Net Factor Services	-6.7	-10.3	-12.5	-9.3	-10.1	-9.0	-7.5
<u>Payments</u>	<u>-7.9</u>	<u>-11.9</u>	<u>-14.0</u>	<u>-10.8</u>	<u>-12.5</u>	<u>-11.0</u>	<u>-9.0</u>
(Interest)	(-6.1)	(-9.5)	(-12.2)	(-10.2)	(-11.8)	(-10.7)	(-8.4)
On Debt of Non-Financial Pub. Sector	-4.0	-5.5	-7.9	-7.3	-8.3	-7.3	-6.4
On Debt of Nationalized Banks	n.a.	n.a.	n.a.	n.a.	-1.1	-0.9	-0.6
On Debt of Private Sector	-2.1	-4.0	-4.3	-2.9	-2.4	-2.0	-1.4
(Profit Remittances)	(-0.5)	(-0.6)	(-0.6)	(-0.2)	(-0.2)	(-0.4)	-0.4
(Reinvested Profits)	(-0.8)	(-1.3)	(-0.8)	(-0.2)	(-0.2)	(-0.2)	-0.1
(Royalties)	(-0.3)	(-0.3)	(-0.2)	(-0.1)	(-0.2)	(-0.2)	-0.1
(Commissions)	(-0.2)	(-0.2)	(-0.2)	(-0.1)	(-0.1)	(-)	(-)
Income	1.2	1.6	1.5	1.5	2.4	2.0	1.5
(On Investments)	(1.0)	(1.4)	(1.3)	(1.3)	(2.1)	(1.7)	(1.2)
(Worker's Remittances)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Transfers	0.3	0.3	0.3	0.3	0.4	0.5	0.5
Current Account	-10.7	-16.1	-6.2	5.3	4.2	0.7	-1.3
Capital Account	11.7	17.3	-0.6	0.2	-1.2	-4.1	0.2
Long-term Capital	7.2	14.1	7.1	17.1	3.1	-0.5	1.1
<u>Public (Net)</u>	<u>4.1</u>	<u>9.0</u>	<u>5.6</u>	<u>16.0</u>	<u>2.0</u>	<u>0.4</u>	<u>1.1</u>
(Disbursements)	(7.8)	(13.8)	(10.6)	(23.1)	(8.2)	(7.8)	(12.0)
Drawings	7.8	13.8	10.6	8.1	4.4	3.9	4.7
Refinancing	-	-	-	15.0	3.8	3.9	7.3
(Amortization)	(-3.7)	(-4.8)	(-5.0)	(-7.1)	(-6.2)	(-7.4)	(-10.9)
Paid	-3.7	-4.8	-3.7	-2.2	-2.4	-3.5	-3.6
Postponed or Restructured	-	-	-1.3	-4.9	-3.8	-3.9	-7.3
Private (Net)	3.1	5.1	1.5	1.1	1.1	-0.9	-
(Direct Investment)	(1.8)	(2.8)	(1.7)	(0.5)	(0.4)	(0.5)	(0.9)
(Portfolio)	(1.3)	(2.3)	(-0.2)	(0.6)	(0.7)	(-1.4)	(-0.9)
Short-term Capital	4.4	3.2	-7.8	-16.9	-4.3	-3.7	-0.9
<u>Public (Net)</u>	<u>0.7</u>	<u>8.8</u>	<u>1.2</u>	<u>-11.2</u>	<u>0.2</u>	<u>-0.1</u>	<u>-0.7</u>
(Disbursements)	(0.9)	(9.3)	(9.0)	(0.5)	(0.2)	(1.1)	(0.7)
Drawings	0.9	9.3	1.4	0.5	0.2	0.1	0.7
Postponement and Refinancing	-	-	7.6	-	-	1.0	-
(Amortization)	(-0.2)	(-0.5)	(-7.8)	(-11.7)	(-)	(-1.2)	(-1.4)
Paid	-0.2	-0.5	-1.5	-1.6	-	-1.2	-1.4
Postponed or Restructured	-	-	-6.3	-10.1	-	-	-
Private and Errors and Omissions (Net)	3.7	-5.6	-9.0	-5.7	-4.5	-3.6	-0.2
SER Allocations	0.1	0.1	0.1	-	-	0.1	-
Change in Reserves (- increase)	-1.0	-1.2	6.8	-5.5	-3.0	3.4	1.1

Sources: IMF and World Bank staff estimates.

exacerbated the problem of excess liquidity. An unexpected resurgence in private sector activity during the last quarter of 1984 reinforced the pressures for higher price increases stemming from monetary and fiscal factors. Domestic demand was still bottled up by severe import controls, with quantitative restrictions never covering less than 83% of all imports. Even so, from mid-1983 through mid-1985, inflation was repressed by the rapidly appreciating real exchange rate. But by the last quarter of 1984, the exchange rate was also repressing non-oil export growth, and stimulating a resurgence of capital flight. Hence, as economic growth and job creation accelerated (Table I.2), Mexico's balance of payments position weakened significantly, and foreign reserves were lost at an accelerating rate.

15. In 1985, the Central Bank reemerged as a major source of new credit, while the public sector once again began to crowd out the private sector (Table I.6). A deterioration in fiscal performance resulted from delays in adjusting public sector prices and tariffs, declining oil revenues, and an increase in subsidies and transfers. The Government was obliged to raise interest rates repeatedly from early 1985 onward, but these were not sufficient to reverse the slow disintermediation in the banking system until late in 1986 (Table I.7).

16. Circularity between the budgetary deficit, inflation, and the cost of servicing the public debt, a phenomenon first observed in 1982, blunted efforts to attack inflation through tighter fiscal policy. Efforts to lower the public sector borrowing requirement (PSBR) through drastic reductions in real public investment and more modest reductions in current spending on goods and services were overwhelmed by resurgent interest expenses in 1985-86, and by the huge loss in revenues earned from oil exports (Tables I.5 and I.8).

17. As seen in Table I.8, the trend in public sector savings has followed a "roller coaster" pattern since 1980, when the current balance was in surplus. As current expenditures soared to nearly 38% of GDP in 1982, the level of public dissaving rose rapidly to 7.8% of GDP. During 1983-84, current spending trended downward and the public sector achieved a small net current surplus by 1984. Thereafter, dissaving grew rapidly, rising to -2.9% of GDP in 1985, and -9.8% in 1986. However, it is important to note that this deterioration stemmed mainly from a loss of oil revenues on the income side (-3.9% of GDP) and by increases in payments of interest on domestic debt equivalent to 6.1% of GDP on the outlay side. When the effects of falling oil revenues and rising interest payments are excluded, the evidence is clear: Mexico's fiscal effort has increased steadily since 1982. The so-called primary domestic fiscal deficit has declined from roughly 24% of GDP in 1982 to about 8% in 1986.

18. These observations place in better perspective the reasons for the deterioration in fiscal results, and the magnitude of Mexico's efforts to resolve them. However, from the standpoint of their macro-economic impact, the large PSBRs have damaged growth prospects. The imbalances in the public

Table I.6: MEXICO: ORIGIN AND DESTINATION OF CREDIT, 1980-1985
(as a share of GDP)

<u>Origin</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Bank of Mexico	3.7	4.6	7.8	4.4	2.8	4.9
Nationalized Banks	5.0	6.5	2.6	4.4	6.3	5.9
Development Banks	1.8	5.0	1.8	1.3	2.4	2.0
Net Interbank Operations	-	0.2	-0.1	-0.3	0.1	-0.2
<u>Destination</u>						
Public Sector (Net)	4.8	10.4	12.9	5.6	4.5	9.2
Private Sector	5.9	5.4	-1.1	4.8	6.8	4.7
Official Trust Funds	0.2	0.2	0.5	0.4	0.2	0.2
Other (Net)	-0.4	0.3	-0.2	-1.0	0.1	-1.5
<u>Total</u>	<u>10.5</u>	<u>16.3</u>	<u>12.1</u>	<u>9.8</u>	<u>11.6</u>	<u>12.6</u>

Sources: IMF and IBRD staff estimates.

Table I.7: MEXICO: FINANCIAL MOBILIZATION IN THE
BANKING SYSTEM, 1985 - APRIL 1987
(annual percentage rates)

<u>Year/Month</u>	<u>Twelve-Month Increase in Nominal M4</u>	<u>Twelve-Month Variation in Consumer Price Index</u>	<u>Twelve Month Variation in Real M4</u>
<u>1985</u>			
January	66.1	60.8	3.3
February	59.3	59.0	0.2
March	56.9	58.4	-1.0
April	53.4	56.5	-2.0
May	53.3	55.1	-1.2
June	49.6	53.4	-2.5
July	46.9	53.7	-4.4
August	43.1	56.0	-8.3
September	46.2	57.6	-7.2
October	45.7	58.0	-7.8
November	45.5	59.8	-9.0
December	44.3	63.7	-11.9
<u>1986</u>			
January	44.3	65.9	-13.0
February	46.3	66.4	-12.1
March	49.3	67.6	-10.9
April	51.2	71.1	-11.6
May	53.1	76.4	-13.2
June	57.8	83.2	-13.9
July	61.7	85.8	-13.0
August	66.1	92.3	-13.6
September	66.4	96.0	-15.1
October	69.6	99.6	-15.0
November	74.2	103.7	-14.1
December	83.3	105.7	-10.9
<u>1987</u>			
January	86.6	104.4	-8.7
February	94.3	109.6	-7.3
March	105.9	113.6	-3.6
April	115.5	120.8	-2.4

Source: Central Bank of Mexico.

Table 1.8: MEXICO: CONSOLIDATED PUBLIC SECTOR ACCOUNTS, 1980-1986
(as share of current GDP)

	1980	1981	1982	1983	1984	1985	1986 (Prel.)
<u>Current Revenue</u>	28.0	28.0	29.8	34.1	33.0	32.5	30.8
<u>Oil</u>	8.4	8.0	11.5	16.7	15.5	13.9	11.6
PEMEX current surplus	1.5	0.2	1.7	3.5	3.7	3.5	4.2
Exports	5.3	5.5	8.6	11.3	9.7	8.5	5.0
Taxes on domestic use of oil	1.6	2.3	1.2	1.9	2.1	1.9	2.4
<u>Non-oil</u>	19.6	20.0	18.3	17.4	17.5	18.6	19.2
Federal Government Taxes	12.6	10.6	9.0	8.9	8.4	8.6	8.7
Other Federal Government Revenue	0.8	0.9	1.2	1.0	0.8	0.9	1.1
Social Security	2.5	2.8	3.0	2.5	2.2	2.4	2.3
Federal District	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Public Enterprises (excl. PEMEX)	3.3	5.4	4.8	4.3	5.9	6.5	6.9
<u>Current Expenditures</u>	-26.2	-29.4	-37.6	-34.5	-32.7	-35.4	-40.6
<u>Government Consumption</u>	-16.4	-18.4	-19.7	-16.6	-16.8	-16.9	-17.6
Wages and salaries	-7.2	-7.7	-8.2	-6.8	-6.7	-6.9	-6.6
Goods and services	-7.4	-8.7	-9.3	-7.6	-7.9	-7.8	-8.9
Revenue sharing	-1.8	-2.0	-2.2	-2.2	-2.2	-2.2	-2.1
<u>Current Transfers</u>	-4.3	-2.9	-2.9	-3.0	-2.0	-2.5	-3.1
<u>Exchange Losses</u>	-	-	-4.0	-0.6	-0.7	-0.5	-0.4
<u>Financing Requirements of Rest of Public Sector</u>	-1.3	-1.0	-2.5	-0.8	-1.2	-1.3	-0.8
<u>Unclassified</u>	-0.6	-1.9	-	-1.0	-1.2	-2.2	-1.8
<u>Interest Payments</u>	-3.6	-5.2	-8.5	-12.5	-10.8	-12.0	-16.9
Domestic	-1.4	-3.4	-3.2	-7.2	-6.4	-7.8	-12.7
External	-2.2	-1.8	-5.3	-5.4	-4.4	-4.2	-4.2
Current Balance-Savings	1.8	-1.4	-7.8	-0.4	0.3	-2.9	-9.8
Investment	-9.4	-13.2	-9.9	-8.0	-7.5	-6.1	-5.3
Financial Intermediation	-0.3	0.2	-0.7	-1.5	-1.4	-0.9	-1.0
Public Sector Borrowing Requirement Excluding	-7.9	-14.4	-18.4	-9.9	-8.6	-9.9	-16.1
Interest Payments on Domestic Debt and	1.4	3.4	3.2	7.2	6.4	7.8	12.7
Oil Export Revenues equals	-5.3	-5.5	-8.6	-11.3	-9.7	-8.5	-5.0
Primary Domestic Fiscal Deficit	-11.8	-16.5	-23.8	-14.0	-11.9	-10.6	-8.4

sector investment-savings gap (Table I.1), and to a lesser extent the pressure on national savings exerted by large payments of interest on the external debt, required a compression of overall levels of investment in order to be financed. In 1986, investment declined to less than two-thirds of the level achieved in 1980 (from 28.6% to 18.9% of GDP).

Non-Oil Export Promotion and Trade Liberalization

19. The previous CEM noted that more rapid growth in non-oil export earnings would be critical for improving Mexico's balance of payments and its creditworthiness. Of course, the report could not have foreseen the magnitude of the collapse in international oil prices in early 1986, which cost Mexico over US\$8 billion in earnings, equivalent to about 30 percent of total 1985 exports (Table I.9). This development severely set back Mexico's progress toward improved creditworthiness (Table I.10). Nominal external debt increased by 3.7% to about US\$101 billion by the end of 1986 (partly due to the effects of currency changes on the value of non-dollar denominated obligations converted to U.S. dollars). Debt service actually decreased by about 12% to around US\$12 billion, due to the impact of lower international interest rates and debt rescheduling. Virtually all external debt ratios, however, showed a sharp deterioration from 1985, notably external debt, which increased to nearly 80% of estimated GDP and over four and one-half times exports of goods and non-factor services.

20. In contrast to the heavy and rising burden of external debt, considerable progress has been achieved since 1982 in reversing the downward trend in non-oil exports and achieving a rapid growth of earnings. Table I.11 indicates that non-oil export earnings reached nearly US\$16 billion in 1986, representing over 70% of total export earnings of about US\$22.0 billion. This means non-oil exports now represent a higher share of total export earnings than at any time since the late 1970s, when the oil boom was just getting underway.

21. Although long-term non-oil export growth has been modest (see Table I.12), having averaged about 6% annually in nominal U.S. dollar terms since 1980, in reality this performance masks a marked shift in trend between an earlier sub-period, 1980-1982 -- when disincentives to export were growing rapidly -- and a more recent sub-period, 1982-1986, during which the economy has undergone a series of adjustment programs. Whereas non-oil exports contracted annually at a nearly 7% rate between 1980 and 1982, they expanded by 12.6% per annum, after 1982, led by manufactures (28.6% annually). Among the most dynamic product groups have been metal products, machinery, and equipment (34.5% annually) and chemicals (16.3%) in the manufactures group, and tomatoes (28.9%) and coffee (25.0%) among agricultural products. With the exception of in-bond industries, whose net earnings moved ahead at a rate of about 19% annually, the non-factor services group has lagged seriously behind, expanding by less than 5% annually since 1982. Earnings from petrochemicals and extraction products (including silver) have also faded, as world disinflation has adversely affected prices for these products.

Table I.9: MEXICO: PETROLEUM AND GAS PRODUCTION AND EXPORTS, 1980-1986

	(in millions of barrels)						
<u>Petroleum</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<u>Production</u>	<u>779.2</u>	<u>932.3</u>	<u>1,096.0</u>	<u>1,078.0</u>	<u>1,118.3</u>	<u>1,091.3</u>	<u>n.a.</u>
(Crude and Condensate)	(708.6)	(844.2)	(1,003.0)	(981.2)	(1,024.3)	(986.7)	n.a.
(Liquids)	(70.6)	(88.1)	(93.0)	(96.8)	(94.0)	(104.6)	n.a.
<u>Exports of Crude Oil</u>							
(Average Price/barrel) <u>1/</u>	29.90	33.18	28.67	26.42	26.87	25.42	11.82
(Volume)	311.0	401.0	545.0	560.0	557.0	523.0	471.0
(Value) <u>3/</u>	9,300.0	13,305.0	15,623.0	14,793.0	14,968.0	13,296.0	5,569.0
	(in millions of cubic feet)						
<u>Natural Gas</u>							
Production	1,298.6	1,482.2	1,549.9	1,479.6	1,373.5	1,315.4	n.a.
Exports							
Volume	102.8	105.1	94.8	79.2	54.2	-	-
Average Price/ft ³	4.36	4.99	5.04	4.42	4.22	-	-
Value	448.6	524.4	478.0	350.1	228.9	-	-

1/ In U.S. dollars.

2/ Millions of barrels

3/ In millions of U.S. dollars.

Sources: Bank of Mexico; PEMEX; SPP; IMF; and IBRD staff estimates.

Table I.10: MEXICO: PUBLIC AND PRIVATE EXTERNAL DEBT AND DEBT SERVICE, 1980-1986
(in billions of U.S. dollars)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> (est.)
<u>Total External Debt</u>	<u>51.4</u>	<u>75.0</u>	<u>89.6</u>	<u>93.1</u>	<u>96.2</u>	<u>97.4</u>	<u>101.0</u> ^{2/}
Public	34.5	53.1	63.0	66.4	69.9	72.8	76.8
Private	11.8	14.9	18.2	18.4	17.7	16.6	16.1
Nationalized Banks	5.1	7.0	8.4	8.3	8.6	8.0	8.1
<u>External Debt Service Paid</u>	<u>9.8</u>	<u>14.3</u>	<u>15.9</u>	<u>12.4</u>	<u>14.2</u>	<u>13.7</u>	<u>12.0</u>
Gross Interest	6.1	9.5	12.2	10.2	11.8	10.2	8.4
Gross Amortization ^{1/}	3.7	4.8	3.7	2.2	2.4	3.5	3.6
<u>External Debt Ratios (%)</u>							
External Debt/GDP	27.6	31.3	55.0	65.1	57.3	58.3	79.5
External Debt/Exports (GNFS)	217.8	254.2	342.0	342.3	319.6	351.6	459.1
Debt Service/GDP	5.3	6.0	9.8	8.7	8.5	8.2	9.4
Debt Service/Exports (GNFS)	46.9	55.0	60.7	45.6	47.2	49.3	54.5
Interest/GDP	3.3	4.0	7.5	7.1	7.0	6.1	6.6
Interest/Exports (GNFS)	29.2	36.5	46.6	37.5	39.2	36.7	38.2
<u>Memorandum item:</u>							
GDP at current exchange rates (in billions of US dollars)	186	240	163	143	168	167	127

^{1/} Actual payments on medium and long-term public debt only.

^{2/} Increase in external debt accounted for in part by the effects of changes in currency valuation on U.S. dollar denominated foreign debt.

Sources: IMF and IBRD staff estimates.

Table I.11: MEXICO: NON-OIL EXPORTS BY VALUE OF MAJOR PRODUCTS OR SERVICES, 1980-1986
(Millions of U.S. dollars)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> (Est.)
<u>Agriculture, Cattle, and Fish</u>	<u>1,940</u>	<u>1,842</u>	<u>1,602</u>	<u>1,569</u>	<u>1,863</u>	<u>1,649</u>	<u>2,310</u>
Cotton	321	309	184	116	208	93	84
Coffee	415	334	345	386	424	481	842
Tomatoes	185	250	154	112	221	198	425
Other	1,019	949	919	955	1,010	877	959
<u>Extractive Products</u>	<u>1,311</u>	<u>1,208</u>	<u>798</u>	<u>920</u>	<u>875</u>	<u>772</u>	<u>724</u>
<u>Manufactures</u>	<u>2,471</u>	<u>2,848</u>	<u>2,445</u>	<u>3,797</u>	<u>4,843</u>	<u>4,675</u>	<u>6,681</u>
of which,							
Metal Products, Machinery & Equipment	938	894	888	1,665	2,075	2,300	2,905
Food, Beverages, & Tobacco	770	679	707	725	822	747	955
Chemicals	395	457	441	628	756	676	808
Basic Non-ferrous Metals	121	70	378	562	510	403	424
<u>Non-factor Services</u>	<u>5,388</u>	<u>5,928</u>	<u>4,819</u>	<u>4,851</u>	<u>5,961</u>	<u>5,782</u>	<u>6,000</u>
Border trade	1,572	1,570	1,237	1,104	1,329	1,200	1,100
Tourism	1,671	1,760	1,406	1,625	1,953	1,700	1,600
In-bond Industries	772	976	851	818	1,155	1,282	1,700
Other	1,373	1,622	1,325	1,304	1,524	1,600	1,600
<u>Petrochemicals</u>	<u>117</u>	<u>133</u>	<u>116</u>	<u>136</u>	<u>161</u>	<u>107</u>	<u>80</u>
Total, Non-oil Exports	11,227	11,959	9,780	11,273	13,703	12,985	15,715
<u>Memorandum item:</u>							
Petroleum and Natural Gas	10,305	14,432	16,362	15,881	16,441	14,770	6,300
(as a percentage of total exports)	47.9	54.7	62.6	58.5	54.5	53.2	28.6

Sources: Bank of Mexico and IMF.

Table I.12: MEXICO: NON-OIL EXPORT GROWTH BY MAJOR PRODUCTS OR SERVICES, 1980-1986
(Average Annual Nominal Percentage Growth)

	<u>1980-86</u>	<u>1980-82</u>	<u>1982-86</u>
<u>Manufactures</u>	<u>18.0</u>	<u>-0.5</u>	<u>28.6</u>
of which,			
Metal Products, Machinery, and Equipment	24.5	-2.7	34.5
Food, Beverages and Tobacco	3.6	-4.2	7.8
Chemicals	13.2	5.6	16.3
Basic Non-Ferrous Metal	30.9	76.7	2.9
<u>Non-Factor Services</u>	<u>1.8</u>	<u>-5.4</u>	<u>5.6</u>
Tourism	-0.7	-8.3	3.3
In-bond Industries	14.1	5.0	18.9
Border Trade	-5.8	-9.8	-2.9
Other	2.3	-1.8	4.8
<u>Agriculture, Cattle, and Fish</u>	<u>3.0</u>	<u>-9.1</u>	<u>9.6</u>
Coffee	11.4	-9.6	25.0
Tomatoes	8.9	-8.8	28.9
Cotton	-20.0	-23.8	-17.8
Other	-1.0	-5.0	1.1
<u>Extractive Products</u>	<u>-8.8</u>	<u>-22.0</u>	<u>-2.4</u>
<u>Petrochemicals</u>	<u>-4.3</u>	<u>0.0</u>	<u>-8.9</u>
Total, Non-Oil Exports	5.8	-6.7	12.6
<u>Memorandum item:</u>			
Average Non-oil Merchandise Export Price Changes (%)	-1.0	-1.6	-0.7

Sources: Bank of Mexico and IMF.

22. The marked disparities in the relative growth of specific products have had equally striking effects on the composition of non-oil exports (Table I.13). Non-factor services constituted nearly half of non-oil export earnings in 1980, but declined to under 40% in 1986. Border trade has lost the most ground, as sales (mainly to U.S. residents) have declined from 14% of all non-oil exports in 1980 to only 7% presently. Meanwhile, the share of manufactures has burgeoned from 22.0% in 1980 to over 37% in 1986. Finally, agricultural products, which have benefitted recently from a surge in coffee prices and the recovery of U.S. demand for Mexican tomatoes and fresh vegetables, now constitute one-seventh of non-oil exports, down slightly in share from 1980.

23. Geographically, four-fifths of Mexico's exports are marketed to industrialized industrialized countries, and to the United States in particular, which alone absorbs one-half to two-thirds (Table I.14). The share of exports sold to developing countries was close to only 10% of total exports in 1986.

24. Behind the shifting fortunes of non-oil exports lie several factors, principally the influence of exchange rate policy in an environment of rapid change in the international markets for petroleum and natural gas (Tables I.3 and I.8). The impact of sudden and sharp increases in earnings from petroleum (or any dominant commodity) on the appreciation of the real exchange rate is by now well documented. This is the so-called "Dutch disease", wherein the relative incentives to produce non-oil tradeables are eroded. By 1981, the peso had appreciated in real terms by nearly 20% in relation to its average real level for the 1976-1981 period as a whole.

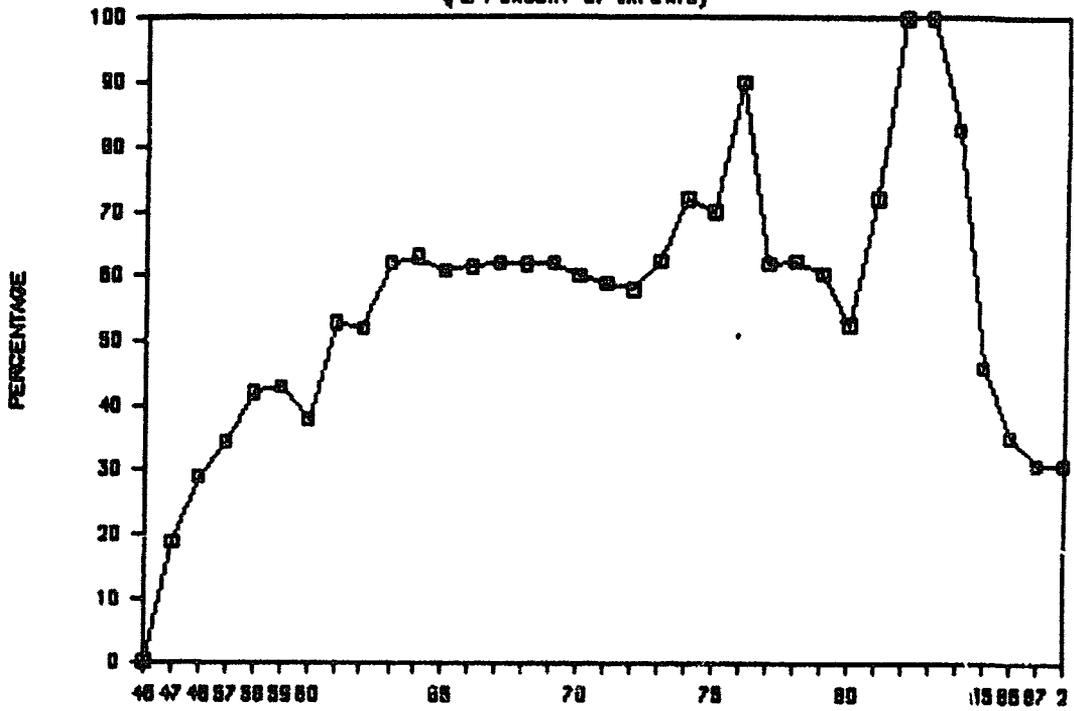
25. As the balance of payments situation became more critical in 1981-82, import restrictions were tightened considerably (Figure 1), raising the relative price of import substitution activities within the traded goods sector, and, thereby, reinforcing the anti-export bias of the exchange rate regime.

26. With the shift in exchange rate policy in 1982-83, a major deterrent to a resumption of non-oil export growth was removed. Moreover, the severely depressed condition of the local economy encouraged firms to seek external markets as a vent for surplus capacity. Thus, non-oil export earnings rose 15% in 1983, and a further 22% in 1984.

27. However, the real depreciation of the exchange rate achieved during, and just following, the financial crisis was not sustained. The origin of these new exchange rate difficulties harked back to 1982. In the course of carrying out several rounds of step-wise devaluations, the Government adopted a dual exchange rate system, which by the end of that year consisted of a controlled market covering about 80% of external transactions including trade, and a "free" market, managed by the commercial banks with occasional central bank intervention. Initially, only the controlled rate was depreciated by a fixed daily amount, but starting in October 1983, both the controlled and "free" rates were depreciated by the same daily amounts. In percentage terms, these movements were set largely on the basis of the EFF program's targets for inflation (55% in 1983 and 40% in 1984). However, these targets were exceeded by wide margins, as the GDP deflator rose 92% in

FIGURE 1

QUANTITATIVE RESTRICTIONS OVER TIME
(AS PERCENT OF IMPORTS)



**Table 1.13: MEXICO: NON-OIL EXPORTS BY SHARES OF MAJOR PRODUCTS OR SERVICES
SELECTED YEARS, 1980-1986
(percentage share of total non-oil exports)**

	<u>1980</u>	<u>1982</u>	<u>1984</u>	<u>1986</u>
<u>Manufactures</u>	<u>22.0</u>	<u>25.0</u>	<u>35.3</u>	<u>37.4</u>
of which				
Metal Products, Machinery & Equipment	8.4	9.1	15.1	18.8
Food, Beverages, and Tobacco	6.9	7.2	6.0	6.2
Chemicals	3.5	4.5	5.5	5.2
Basic Non-Ferrous Metals	1.2	3.9	3.7	2.7
<u>Non-factor Services</u>	<u>48.0</u>	<u>49.3</u>	<u>43.5</u>	<u>38.2</u>
Tourism	14.9	14.4	14.3	10.2
In-bond Industries	6.9	8.7	8.4	10.8
Border Trade	14.0	12.7	9.7	7.0
Other	12.2	13.5	11.1	10.2
<u>Agriculture, Cattle, and Fish</u>	<u>17.3</u>	<u>16.4</u>	<u>13.6</u>	<u>14.7</u>
Coffee	3.7	3.5	3.1	5.4
Tomatoes	1.7	1.6	1.6	2.7
Cotton	2.9	1.9	1.5	0.5
Other	9.0	9.4	7.4	6.1
<u>Extractive Products</u>	<u>11.7</u>	<u>8.2</u>	<u>6.4</u>	<u>4.6</u>
<u>Petrochemicals</u>	<u>1.0</u>	<u>1.2</u>	<u>1.2</u>	<u>0.5</u>

Sources: Bank of Mexico and IMF.

Table I.14: MEXICO: DIRECTION OF EXPORTS, 1980-1986
 (Percentage share of total exports)

<u>Importing Countries & Economic Groups</u>	<u>1980</u>	<u>1982</u>	<u>1984</u>	<u>1986</u> <u>(Jan-April)</u>
<u>Industrial Countries</u>	<u>85.4</u>	<u>83.4</u>	<u>85.7</u>	<u>n/a</u>
of which				
United States	64.7	52.5	58.4	68.7
EEC	15.3	21.3	17.8	12.2
Japan	4.3	6.8	7.5	6.8
<u>Developing Countries,</u>	<u>12.6</u>	<u>15.2</u>	<u>10.3</u>	<u>n/a</u>
of which				
Latin American Association for Economic Integration	4.2	4.8	3.1	2.9
<u>Others</u>	<u>3.0</u>	<u>1.4</u>	<u>4.0</u>	<u>n/a</u>

Sources: Direction of Trade Statistics Yearbook, 1986, IMF; Central Bank of Mexico.

1983 and 62% in 1984. The policy of fixed daily devaluations remained nonetheless, in effect, although the daily rate was raised from Mex\$0.13 per U.S. dollar initially to Mex\$0.17 per U.S. dollar from December 1984, and to Mex\$0.21 per U.S. dollar from March 1985. This was insufficient to maintain a stable real peso. Between March 1983 and June 1985, the real peso appreciated 57% on a trade-weighted basis, thus eroding much of the competitive margin which the initial devaluations had conferred.

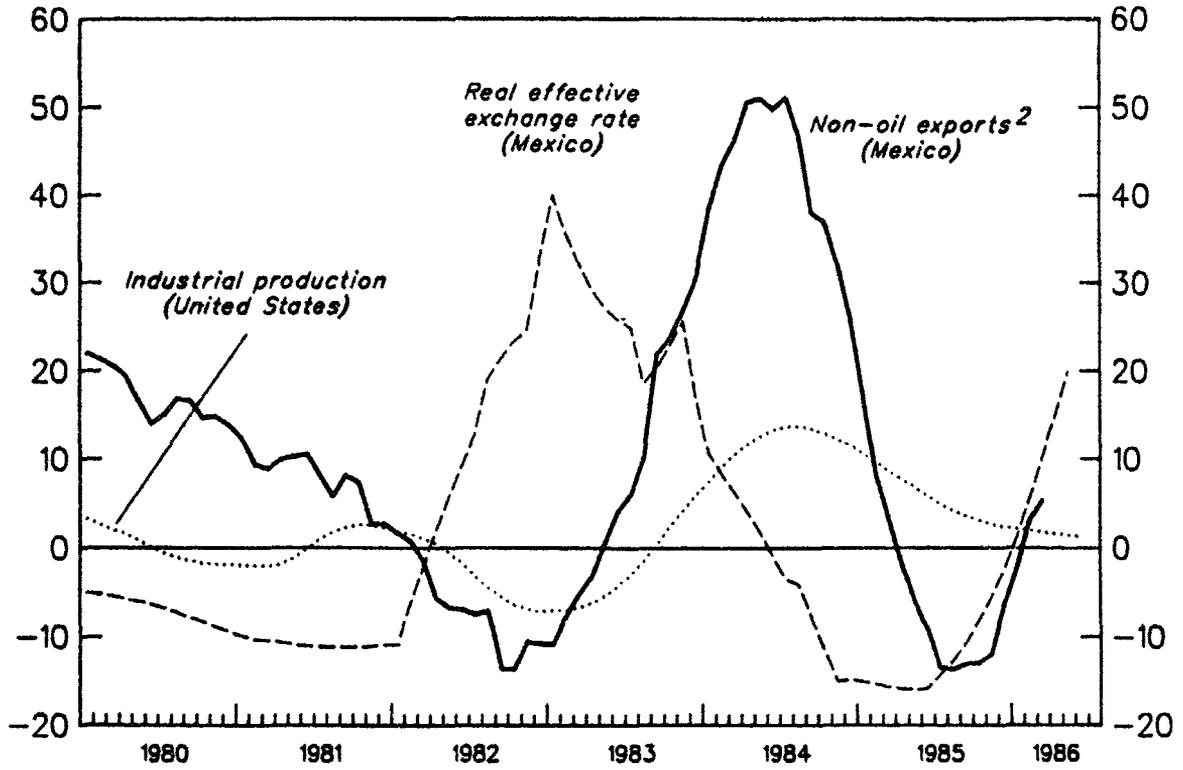
28. Moreover, delays in reversing the severe import restrictions adopted in 1982-83 and a strong recovery of domestic demand in 1984 raised the attractiveness of selling into the highly-protected local market, exacerbating the resource pull away from export markets. Of all these factors, the impact of the real exchange rate appreciation appears to have been dominant (Figure 2). The rate of non-oil export growth began to fade from the early months of 1984, continuing to decline through nearly the end of 1985. It was at this time that the effects of a mid-1985 stepwise devaluation, followed by the implementation of a more flexible exchange rate policy and major trade liberalization measures, permitted non-oil exports to resume their ascent.

29. By early July 1985, the spread between the controlled and the "free" rate had widened to as much as 37% from less than 10% six months previously. The Government's foreign reserves were under pressure, having declined to less than two months' import cover, and expectations of a major devaluation had become widespread. On July 25, the Government announced a 20% devaluation of the controlled rate, followed in early August by a new system of managed exchange rate floating. In this system, the daily rate of devaluation vis-a-vis the U.S. dollar was allowed to vary, mainly in accordance with supply and demand conditions for foreign exchange and the behavior of foreign reserves. In practice, this has meant a marked acceleration in the average nominal rate of devaluation from 3-4% monthly prior to August 1985 to 8-9% monthly from then through the end of 1986. In early 1987, the rate slowed somewhat to 6 1/2% - 7% monthly. Through April 1987, the real peso had depreciated by nearly 60% on a trade-weighted basis, and the performance of non-oil exports (goods and non-factor services) responded accordingly. The decline of 10% or so in 1985 non-oil earnings had been followed by an increase of 21% in 1986, with merchandise exports up 34%.

30. Of longer-term significance for the sustainability of the non-oil export drive were the steps taken to liberalize imports in July 1985. Historically, import quota restrictions and domestic price controls, combined with movements in the real exchange rate, have been more important determinants of the level of implicit import protection in Mexico than tariffs. As can be seen in Figure 1, quota restrictions have tended to rise fastest during periods preceding and coinciding with major balance of payments crises. This was true in 1954, 1976, and again in 1982-83. Quota restrictions became progressively more restrictive in the long run, rising from 10% to 40% in the 1950s, to 60% in the 1970s, and to 100% in 1982-83.

31. A rollback of quantitative restrictions, starting in late 1984, reversed this nearly 40-year process. Seventeen percent of imports were freed in 1984, 12% during the first half of 1985, and an additional 46% in July 1985. This brought the import coverage of quotas to under 40%, its

FIGURE 2
MEXICO
PERFORMANCE OF NON-PETROLEUM EXPORTS
(Percentage change)



Sources: Bank of Mexico; U.S. Department of Commerce; and Fund staff estimates.

¹ Percentage change of 12-month moving average over the previous 12-month average.

² Valued in U.S. dollars.

lowest level since the early 1950s, and the coverage in relation to final demand down to 56% (in 1985 values). The Government has reinforced this signal of more open import policies in several ways during 1986 and the first half of 1987. It

- requested membership in the association of the General Agreement on Tariffs and Trade (GATT), which was approved by that organization in August 1986. Mexico signed four GATT codes in May 1987 (on anti-dumping, subsidies, valuation, and countervailing duties), and expects to sign a fifth on safeguards upon completion of negotiations;
- lowered the maximum tariff from 100% in 1985 to 40% as of April 1987;
- announced a three-year calendar of staged reductions designed to narrow the range of import tariffs from 0-100% in March 1986 to 0-30% by October 1988, and the number of tariff categories from 11 to 5;
- pledged to eliminate all official reference prices (ORPs) on imports (a non-tariff barrier) by the end of 1987 in concert with the introduction of a modern anti-dumping system compatible with GATT procedures. By May 1987, the number of ORPs had been reduced from 1348 to 528. A large number of the remaining ORPs have already had their levels reduced by up to one-third of their differential with corresponding international prices as part of their staged elimination;
- reduced the coverage of import quotas by a further 9% of domestic final demand to about 47% by May 1987. Of this 47%, slightly over 20% represents oil and refined products, in nearly all of which Mexico is internationally competitive, and imports of materials hazardous to public welfare (arms, drugs, etc.). When the effect of remaining official reference prices is taken into account, non-tariff barriers were applicable to products representing about 54% of final demand;
- reduced the number of export tariff positions subject to quantitative restrictions from 578 in 1980 to 201 by the end of 1986, with the restricted portion of export sales declining from 85% to 17% of non-oil exports. Export duties have also been streamlined, so that, by March 1987, only 62 tariff positions, mainly agricultural products, remained subject to an export tax. Also, official reference prices were eliminated on all but coffee exports. Some controls remain significant, particularly in agriculture, where cattle, shrimp, a number of grains and vegetables, and coffee (by international agreement) are most severely affected. Export controls continue to be applied for three key reasons: (i) to abide by international quota agreements, such as for coffee, tobacco, cotton and some minerals, products accounting for nearly 15% of 1983 non-oil exports; (ii) to abide by bilateral export restraint agreements, and/or to enforce quality

and price controls, affecting nearly 20% of 1983 non-oil exports, and including products such as steel, pharmaceuticals, seafood, processed food, and petroleum derivatives; and (iii) to reinforce domestic price and marketing controls on agricultural products where local production is considered deficient, representing about 10% of 1983 exports, including staples such as corn, soybeans, sorghum, and flour. Finally,

- domestic price controls have been significantly relaxed for a large number of products, particularly those freed from NTBs. By the end of 1986, only about 10% of production freed from QR protection, and 2.7% of production freed from ORPs, remained under strict or registered price controls.

These measures are now being supported by a US\$500 million World Bank Trade Policy Loan as part of the Government's Growth-Oriented Adjustment Program (see below).

32. In unit wage costs, Mexico has gained a significant competitive advantage over other export-oriented countries. Real manufacturing wages and benefits declined cumulatively by nearly 25% between 1980 and 1985 in local currency terms; in U.S. dollar terms, the reduction was still larger. As a result (see Table I.3), Mexico's wage rates are now among the lowest of the major developing country export nations (see Table I.15).

33. As for export promotion, specific measures were adopted under the auspices of the National Program of Industrial Development and Foreign Trade (PRONAFICE), approved in 1984, and the Export Development Program (PROFIEX), approved in 1986. These measures have had as their principal benefit the creation of a quasi "free trade status" for many direct and indirect non-oil exporters:

- Domestic letters of credit now permit exporters and their suppliers to obtain access to export financing and foreign exchange needed for imports;
- Under a recently expanded temporary import admission scheme, exporters signing multi-year agreements with the Government will be allowed to import machinery, equipment, and intermediate inputs with reduced guarantee requirements and rebates of duties and indirect taxes;
- Exporters will be granted the right to retain up to 100% of their foreign exchange earnings for future imports;
- Various export financing credit lines are being consolidated, and export insurance and guarantee schemes simplified;
- Administrative steps are being simplified. Export/import procedures and controls are being consolidated under a so-called "single window facility" located in the Secretariat of Commerce and Industrial Development (SECOFI), while trade financing functions will henceforth be guided by the National Foreign Trade Bank (BNCE).

**Table I.15: MEXICO: TRENDS IN U.S. DOLLAR-DENOMINATED MONTHLY WAGES
IN EIGHT SELECTED COMPETITOR COUNTRIES VIS-A-VIS MEXICO, 1982-1984
(In U.S. dollars)**

<u>Country</u>	<u>Monthly Wages</u>			<u>Cumulative</u>
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>Percentage Change</u> <u>1982-1984</u>
United States	2,040	2,119	2,203	8.0
Canada	1,994	2,062	2,068	3.7
West Germany	1,450	1,423	1,306	-12.0
Japan	1,083	1,175	1,230	13.6
Great Britain	1,251	1,176	1,100	-12.0
France	875	841	793	-9.4
Singapore	306	342	374	22.2
South Korea	277	292	304	10.1
Mexico	327	232	265	-19.0

Source: Secretariat of Finance and Public Credit.

Table 1.16: MEXICO: STRUCTURE OF CONTROLLED NON-OIL MERCHANDISE EXPORTS AS OF JULY 31, 1985
(Percent of Total Exports and Non-oil Exports)

<u>Sector</u>	<u>Number of Tariff Positions</u>	<u>Value of 1983 Exports (US\$m)</u>	<u>% of Total Exports</u>	<u>% of Non-oil Exports</u>
<u>Total Merchandise Exports</u>	<u>3,050</u>		<u>100.0</u>	-
Non-oil Merchandise Exports	-	7,614	32.7	100.0
Controlled Non-oil Exports	265	3,360	14.4	44.1
(Mining, Agriculture, and Fisheries)	(164)	(2,881)	(12.4)	(37.8)
(Manufacturing)	(91)	(479)	(2.1)	(6.3)
(Other-endangered species, etc.)	(10)	(-)	(-)	(-)

Source: Secretariat of Commerce and Industrial Development.

Enhancing the Role of the Private Sector in Economic Recovery

34. The previous CEM observed that, in the face of grave macro-economic disequilibria and severe constraints on access to external savings, Mexico's public expenditure-led growth strategy had reached its limits. (This was of course, very much in line with what the 1983-1988 PND had already stated). In the future, growth was likely to derive mainly from tradeable goods sector, notably agriculture and manufacturing, and from some of the promising service branches, such as tourism and in-bond industries. Given that private enterprise is predominant in these potential leading sectors, it was expected that a larger private sector role in Mexico's recovery and long-term growth would emerge during this sexenio (six-year administration).

35. Comparing the public and private sector contribution to the growth and development process is an enterprise fraught with difficulties, since there is no single measure or group of measures which could provide an adequate gauge. Moreover, the long period elapsed since the national income accounts were last revised means that comparisons of relative public vs. private sector growth must be surrounded with a more than usual number of caveats about possible statistical biases. Yet, by reviewing such measures as are readily available, the picture which emerges is decidedly mixed. Although the public sector's presence in economic life has been scaled back in important ways since 1982, in some respects it has continued to grow. Meanwhile, the private sector has seen its relative economic position hold stationary, or even diminish. In short, a leading role for the private sector in bringing about recovery has yet to emerge.

36. Viewed by their broadest measure, public sector spending and revenues have not declined relative to the size of the economy (see Tables I.8 and I.17). At 46% of GDP in 1986, public spending was close to the peak level reached in 1982, and well above the level reached in 1980, while revenues were about 1% of GDP higher in 1986 than they were in 1982. However, it would be misleading to stop there because, in reality, the composition of spending and revenues has markedly changed. Significant reductions have occurred in the real volume of spending, and in the real size of the fiscal deficit. The share of interest payments has grown from 3.6% of GDP in 1980 to 16.9% of GDP in 1986, "crowding out", in this sense, spending on goods and services.

37. This point becomes clearer when the second measure of public spending is observed, a measure which excludes interest payments. The GDP share of public outlays for non-financial goods and services in 1986 dropped by over one quarter relative to the peak level of 39% of GDP reached in 1982, and by roughly 6% relative to the 1980 level. When operating outlays of the public enterprises are also excluded, a third measurement of public spending results which is closer to the "value-added" concept used in national income accounting. By this measure, government spending on goods and services in 1986 (i.e., non-financial outlays under budgetary control) fell to one-fifth of GDP, compared to nearly one-third of GDP in 1982. This represented a proportional decline of roughly one-third in 4 years. Public sector investment followed a similar trend. Spending exceeded 10% of GDP in the early 1980s, before shrinking to 5.3% of GDP in 1986. As for the fiscal

**Table I.17: MEXICO: SELECTED INDICATORS OF THE PUBLIC AND PRIVATE
SECTOR ROLES IN ECONOMIC ACTIVITY, 1980-1986
(as a share of current GDP)**

	1980	1982	1984	1986 (est.)
<u>Public Sector</u>				
Spending				
All	35.6	47.5	40.2	45.9
Excluding Interest Payments	32.0	39.0	29.4	29.0
Excluding Interest Payments and Public Enterprise Operating Expenditures	25.3	30.8	19.8	20.5
Investment	9.4	9.9	7.5	5.3
Non-oil Revenue	19.6	18.3	18.7	19.2
National Savings	1.8	-7.8	0.3	-9.8
Operational Deficit	-5.2	-7.2	1.0	-1.7
<u>Private Sector</u>				
Investment	19.2	11.3	14.1	13.6
National Savings	22.6	25.6	23.8	27.7
<u>Ratio</u>				
Private/Public Investment (%)	204.3	114.1	188.0	256.6
Public/Private Savings (%)	8.0	-30.1	1.3	-35.4

Sources: Tables I.1 and I.8, and IBRD staff estimates.

Table I.18: MEXICO: GROWTH OF ECONOMIC SECTORS CLASSIFIED BY DEGREE OF PUBLIC OR PRIVATE PARTICIPATION, 1980-1985 (In 1970 prices)

	<u>1980-85</u> ^{2/}	<u>1980-82</u> ^{2/}	<u>1982-85</u> ^{2/}
<u>High Public Sector Participation</u> ^{1/}	<u>2.9</u>	<u>5.4</u>	<u>2.2</u>
Mining (including oil)	4.0	12.2	0.2
Electricity	5.4	7.7	5.0
Financial Services	2.9	3.8	2.6
Public Administration and Defense	4.1	6.8	2.6
Transport and Communications	1.1	3.3	1.8
<u>High Private Sector Participation</u>	<u>0.0</u>	<u>2.9</u>	<u>0.1</u>
Agriculture, Forestry, and Fishery	2.4	2.7	2.6
Manufacturing	0.2	1.9	1.3
Construction	-3.5	3.0	-3.9
Commerce	-1.0	3.2	-1.4
Other Services (excluding Public Administration and Defense)	2.2	5.6	0.5
<u>GDP</u>	<u>0.8</u>	<u>3.6</u>	<u>0.6</u>
<u>Memorandum items:</u>	<u>1980-85</u>		<u>1983-85</u>
Public Sector Employment Growth	6.3		5.4
Private Sector Employment Growth ^{3/}	0.5		

^{1/} Defined as sectors where output by publicly-controlled agencies and enterprises constitute one-third or more of sector value-added.

^{2/} Log least squares growth rates.

^{3/} Includes formal and informal urban labor markets.

Sources: SPP/INEGI and the International Labor Office.

deficit, after correcting for the effects of inflation in reducing the real stock of domestic public debt, the so-called operational deficit declined from -5.2% of GDP in 1980 to -1.7% in 1986.

38. On the revenue side, it is preferable to look only at non-oil public income. This is because oil-based revenues are generated mainly from public sector output, whereas what is sought is a rough proxy for the public sector's long-term command over private sector income. Viewed from the standpoint of non-oil revenues, the revenue share of the public sector has been trendless, oscillating around one-fifth of GDP.

39. Another indicator, the public sector's share of national savings, provides a different perspective. It shows a public sector which, on balance, has increased its absorption of private sector savings. By 1982, the public sector's dissaving was equivalent to more than a quarter of private sector savings. After major improvement in 1983-84, dissaving ballooned to nearly 10% of GDP in 1986, drawing off over one-third of the private sector's savings. (No doubt, rising inflation distorts conventional measures of public savings, such as the current fiscal balance. However, it does convey better than the real (or operational) fiscal deficit the ex ante pressures that a rising nominal fiscal imbalance exerts on scarce domestic financial resources, and, ultimately, on prices. This is particularly true when inflation-taxed domestic savers become reluctant even to maintain their holdings of public debt level in real terms, except at ever higher real rates of interest, and when the medium-term availability of foreign finance appears likely to be scarce and expensive).

40. Turning now to the private sector, the indicators are mixed, but generally unfavorable. Private sector investment has risen as a share of GDP from its nadir of 11% in 1982 to about 14% in 1986. But it has yet to approach the 19% of GDP level last attained in 1980. The private sector savings ratio has increased from an already high 1980 level of 22% of GDP, but a growing component of this effort has been involuntary, i.e., collected via a rising inflationary tax on financial assets.

41. Another way of measuring the changing roles of the public and private sectors is to compare the growth of sectors where public sector participation is important with growth in sectors where private sector activity is dominant (see Table I.18). An initial observation is that, in the aftermath of Mexico's economic crisis, a slowdown in economic growth occurred across all sectors. Overall output grew by less than 1% annually during 1983-1985. Secondly, those sectors where the private sector is most active have exhibited lagging growth, before and after the onset of the crisis. The private sector has essentially stagnated since 1980, whereas public sector-dominated sectors have expanded at an average of nearly 3% annually in real terms. The contrast in employment trends is even more striking. Public sector employment rose at a 6.3% average annual rate during 1980-1985, whereas private sector employment essentially stagnated. During the 1983-1985 sub-period, the gap between public and private sector employment growth remained wide (5.4% vs. -0.4% per annum respectively).

42. Clearly, if the era of public expenditure-led growth has reached a dead-end, the private sector has yet to take up the slack. The key question is: why hasn't the private sector done better? No doubt a major factor was the uncertain macroeconomic climate for growth and investment of recent years -- high and variable inflation, foreign exchange shortages, large fluctuations in real exchange rate and interest rate levels, crowding out in credit markets, the heavy burden of external and domestic indebtedness, and the sharp downturn in domestic demand. To the extent that the public sector has been able, through its preferential access to society's resources (e.g., credit from the domestic banking system and, when available, first call on external finance) to mitigate the impact of economic disruption on its own activities, the effects of recession and uncertainty logically would have fallen more heavily on the private sector.

43. But the structural causes behind the private sector's inability to lead the recovery also deserve mention. Historically, the public sector has extended its reach progressively over the economy, restricting competition among economic agents -- favoring some with subsidies, penalizing others with marketing and pricing controls -- in ways not always inspired by a coherent view of economic strategy. Many of the distortions and difficulties which the public sector is now addressing -- overmanning, inefficient investment allocation, a lack of international competitiveness, etc. -- must also be confronted by the private sector, which has developed under a similar set of rules and conditions.

Industry

44. This can be seen most clearly in the industrial sector.^{3/} For more than 30 years, industrial policy in Mexico has sought to channel resources into industry, both directly through the budget and indirectly through the incentives system, by means of quantitative trade restrictions, import tariffs, subsidies, tax breaks, preferential credit schemes, sector programs, pricing and marketing controls, other industrial regulations. The creation of public sector enterprises to control the production and distribution of many basic and semi-finished industrial inputs (oil, power, steel, primary petrochemicals, etc.) and to define the market environment for complementary private sector firms has also been a key tool of public policy. In general, these incentives and controls increased significantly during the 1960s and 1970s, reached their peak in the early 1980s, and have been cut back gradually since 1982. They played an occasionally constructive role in shaping during the 1950s, 1960s, and early 1970s one of Latin America's largest and most diversified industrial bases. Yet, today, important sectors of Mexican industry have become high-cost and internationally uncompetitive. Why?

^{3/} This section draws upon the recently-published World Bank report on Mexico's Trade Policy, Industrial Performance, and Adjustment (No. 6215a-ME of June 24, 1986).

45. In essence, shielding the industrial sector from international competition resulted in an extensive, rather than intensive, pattern of growth over the past 15 years. This means that long-term improvement in total manufacturing productivity failed to occur, so that growth resulted uniquely from increases in the amount of factor inputs utilized, not from greater efficiency. As the wedge between international and domestic prices increased during the 1970s, investments were pushed into progressively higher-cost activities, and the industrial sector demonstrated a decreasing ability to use new techniques of production efficiently. Currently, about half of Mexico's industrial sub-sectors do not meet the standards of international competitiveness. They include heavy intermediate goods, capital goods, and some consumer durables. Moreover, a recent World Bank-financed analysis of changing comparative advantage concluded that international competitiveness deteriorated in a majority of sub-sectors from 1970 to 1982. Although unfavorable international price trends accounted for part of this deterioration, poor productivity and excessive capital deepening were most important.

46. The current drive to gradually restore market-based interest rates, prices, and exchange rates to the incentives framework represents a major step toward greater efficiency. Yet, even in today's price environment, financial performance and economic efficiency in Mexican companies are not necessarily correlated (see Table I.19). Three situations can be highlighted: (a) those industries which are efficient but unprofitable; (b) those which are profitable, but inefficient; (c) and those which are both inefficient and unprofitable. For example, nearly one-third of all consumer goods and non-metallic mineral producers suffer from low operating profit margins at market prices, even though these industries stand out for their efficient domestic resource cost ratios (DRCs).^{4/} By contrast, two sub-sectors with high DRCs suggesting poor international competitiveness -- chemicals and basic metals -- are among those enjoying the highest rates of profitability at market prices. High effective protection coupled with limited domestic competition has allowed these producers to garner substantial rents. Finally, there are sub-sectors such as metal products and machinery where, despite high levels of protection, inefficiency at international prices has carried over into poor financial performance. In this case, the rents conferred to producers by the structure of protection were absorbed by high production costs.

Agriculture

47. Structural issues in agriculture are among Mexico's most difficult to resolve. The relative scarcity of agricultural lands, plus seven decades of land reform and rapid population growth, has fragmented half of Mexico's arable land into micro-sized farm units (less than 20 hectares), many of which are too small to be efficiently exploited, given marginal soil and water conditions. A 1982 study by the Economic Commission of Latin

^{4/} DRCs give the ratio of domestic factor costs at shadow prices to value added at international prices.

Table I.19: MEXICO: PATTERNS OF STRUCTURAL ADJUSTMENT

FINANCIAL RESOURCES

INDUSTRIAL
COMPETITIVENESS

High

Normal

Low

Competitive
Improving

	Beverages	Pharmaceuticals
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Competitive
Stable

	Soaps and Detergents Wool Spinning and Wooling Paper and Products Cardboard Other Glass Products Petroleum and Petro- chemicals Fertilizers	Homageous Farm Machinery
--	---	-----------------------------

Competitive
Deteriorating

Tobacco	Beer Brewing Cotton Spinning and Weaving Worsted Cloth Glass Containers Cement	Vegetable Oil Animal Feeds
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Uncertain
Improving

		High	Normal	Low
				Iron and Steel Pipes and Tubes Auto Bodies and Parts

Uncertain
Stable

	Wood and Wood Pro- ducts Cooper Alumina Metal Products	Metal Furniture Electrical Machines
--	--	---

Uncertain
Deteriorating

Other Food Pro- ducts Cocoa	Artificial Yarns and Fabrics	Refrigerators Metal Carriages Transport Equip- ment
-----------------------------------	---------------------------------	--

Uncompetitive
Improving

	Synthetic Fibers	High	Normal	Low
	Iron and Tubes Other Rubber and Plastics			Primary Iron and Steel Secondary Iron and Steel Non Electrical Machinery

Uncompetitive
Stable

	Basic Chemicals			
--	-----------------	--	--	--

Uncompetitive
Deteriorating

	Processed Meat Fats	Condensed Milk Canned Consumer Electron- ics Automobile Assem- bly
--	------------------------	---

America^{5/} identified 1 1/2 million ejido farm units as "below-subsistence" (i.e., they do not produce sufficient food to feed their tenants), while another 1 million units were regarded as "transitional", i.e. their farm income had to be complemented by income from non-farm earnings in order to attain minimally-acceptable standards of living. In general, farm unit productivity varies considerably, depending not only on whether production is for profit or for subsistence, but also on a widely divergent set of agro-ecological conditions across regions, the range of crops grown, the types of inputs available and used, and the effectiveness of supporting public sector infrastructural investment and services. For example, in the irrigated and intensively-farmed Northwest, yields are twice, and labor productivity three times, the national average, whereas in the Central Gulf Region and in the Yucatan Peninsula, both measures of productivity are well below national averages.

48. During the late 1970s and the early 1980s, the key aims of food policy were in fundamental conflict. Measures to guarantee consumers access to cheap sources of staple foods clashed with the drive toward self-sufficiency in food production. Support prices and subsidies for producers and food processors were raised significantly, while consumer price adjustments were held well below the rate of inflation. Budgetary pressures arose from three directions simultaneously: more costly government crop purchases at higher support prices, higher producer and processor subsidies, and higher consumer subsidies (see Tables I.20 and I.21).

49. To shield the price support program from the effects of foreign trade, an extensive system of import and export quotas was entrusted to the joint management of SECOFI and the National Agricultural Marketing Company (CONASUPO). Until 1985, only public enterprises were entitled to import basic commodities, such as grains, oilseed, sugar, and tobacco. An interministerial committee was empowered to set prices for growers, processors, and consumers, while CONASUPO implemented policy directives through the storage, processing, and distribution of commodities, and retailed food items through its nationwide chain of supermarkets.

50. Thanks to historically-high real producer margins for most agricultural crops since 1980, and to a cycle of exceptionally favorable weather, farmers have expanded output more rapidly (1.4% per annum during 1982-86) than any other privately-oriented sector, and somewhat faster than the economy as a whole. Nevertheless, over the past half century, the trend growth rate of agricultural production has been downward, as the expansion of arable land came to an end and industrial import substitution policies discriminated increasingly against farm production. Output slowed from an average of 4.8% annually in the 1930s, to 3.4% in the 1960s, and to 2-3% per annum in the 1970s and 1980s. Agriculture was gradually transformed from a major net exporting, to a net importing sector. Agricultural exports, which had accounted for over 50% of non-oil export earnings in 1970, declined to

^{5/} The study was based on 1970 data, the most recent available on this subject. See Economía Campesina y Agricultura Empresarial, Siglo XXI, ECLA (1982), Mexico.

**Table I.20: MEXICO: COMPARISON OF PRODUCER GUARANTEE PRICES WITH
AVERAGE CONASUPO SALE PRICES FOR CORN, SELECTED YEARS, 1965-1983
(Mex\$/ton)**

<u>Year</u>	<u>Guarantee Price</u>	<u>Average CONASUPO Sale Price</u>	<u>Implicit Subsidy ^{1/}</u>	<u>Subsidy as % of Guarantee Price ^{1/}</u>
1965	940	815	125	13.3
1970	940	901	39	4.2
1980	4,450	3,122	1,328	29.8
1981	6,550	3,798	2,752	42.0
1982	8,850	6,550	2,300	26.0
1983	16,000	6,550	9,450	59.1

^{1/} Does not include subsidies covering storage, distribution,
and marketing overhead.

Source: "Food Subsidy Programs in Mexico" by Nora Lustig, International
Food Policy Institute, 1986.

**Table 1.21: MEXICO: SELECTED FARMER INPUT AND CREDIT SUBSIDIES AS A SHARE
OF WORLD UNIT PRICE EQUIVALENT, SONORA, 1985
(percentage)**

Subsidy

Credit	46.7
Urea Fertilizer	59.4
Water	66.7
Diesel Fuel	31.7

Source: "Comparative Advantage and Policy Incentives for Wheat Production in Rainfed and Irrigated Areas of Mexico"; CIMMYT Working Paper No. 01/86; March 1986; Byerlee and Longmire.

less than 15% during 1983-1986. Until 1981, the share of agricultural imports rose, mainly for grains to cover a growing food deficit.

51. Since 1984, the Government has sharply reduced consumer food subsidies (see Table I.22). By the end of 1986, they had fallen to less than one-fifth of their level in 1983. CONASUPO also scaled back its import activities (from 33 commodities in 1982 to 8 by September 1986), and is selling a small number of the supermarkets it operates. Nevertheless, federal government transfers to CONASUPO have remained at comparatively high levels until last year, around 0.7% of GDP. Over 90% of these transfers were used to cover the cost of servicing CONASUPO's external debt of US\$1.7 billion, over three-quarters of which the federal government assumed in April 1986. As part of this debt relief agreement, CONASUPO's management agreed to undertake major internal reforms, which are expected to reduce the enterprises's operating losses and to scale back significantly its use of import and marketing controls.

Population and Employment

52. The previous CEM took note of the declining trend in population growth, largely due to a decline in fertility. This decline came about as a result of an expanding and highly-successful family planning program, the spread of education among women, and their rising rate of participation in the labor force. The report anticipated that, notwithstanding this progress toward lowering the rate of population growth, the growth of the labor force would remain high -- nearly 4% annually -- and the pressure on employment markets correspondingly intensified because of past high birth rates and a rising general labor force participation rate. To absorb all new entrants into the labor market, faster overall economic growth as well as specific policies to encourage labor-intensive growth were considered indispensable.

53. Table 23 shows that the population growth rate has continued to decline, averaging 2.3% annually from 1983 to 1986. On the other hand, as predicted: the labor force has expanded more in line with past population growth rates (by 3.7% annually). Unfortunately, employment in the formal sector did not expand in net terms, a by-product of the economic recession (output was down an average of 0.7% annually). Indeed, had the labor intensity of growth not risen modestly, formal employment would have contracted.

54. The slowdown in formal market employment growth from nearly 4% annually in the 1970s to 1.7% in the 1980s, together with the continued high rate of labor force expansion, has led to a striking increase in the number of workers obliged either to seek informal employment, to emigrate, or, in a smaller proportion of cases, to remain unemployed for long periods of time. This growing employment "gap" -- or the difference between the number of potentially productive job holders and the number of productive jobs actually made available in the economy -- had by 1986 reached almost 5 million workers, or more than 19% of the labor force, compared with 1.5 million workers (7%) in 1982. Lack of solid information on the quality of employment in informal labor markets, and the proportion of workers productively

**Table I.22: MEXICO: COMPARISON OF CONASUPO FOOD SUBSIDIES AND TRANSFERS
RECEIVED FROM FEDERAL GOVERNMENT, 1982-1986
(in billions of pesos)**

<u>Year</u>	<u>Food Subsidies</u> (% of GDP)		<u>Transfers from Federal Government</u> (% of GDP)		<u>Subsidies As a Share of Transfers</u> (%)
1982	58.7	0.62	54.0	0.57	109
1983	173.2	1.01	126.2	0.74	137
1984	271.7	0.94	348.1	1.21	78
1985	205.1	0.45	466.6	1.02	44
1986 (budget)	143.8	0.18	587.6	0.73	24

Source: World Bank staff estimates.

Table I.23: MEXICO: SELECTED TRENDS IN POPULATION, EMPLOYMENT, AND WAGES, 1980-1986

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1983-86</u>
<u>Population Growth</u>	2.7	2.6	2.6	2.5	2.4	2.3	2.2	2.3
<u>Labor Force</u>								
Size (in millions)	20.0	20.7	21.4	22.2	23.0	23.8	24.7	
Growth (%)	-	3.5	3.4	3.7	3.6	3.5	3.8	3.7
Participation Rate (%)	29.0	29.3	29.5	29.9	30.2	30.6	30.7	
<u>Formal Employment</u>								
Total (in millions)	18.8	20.0	19.9	19.6	20.1	20.3	19.9	
Growth (%)	-	6.4	-0.5	-1.5	2.6	2.5	-2.0	0.0
<u>Private Sector</u>								
Sub-total (in millions)	15.6	16.5	16.2	15.6	15.9	16.0	n/a	
Growth (%)	-	5.8	-1.8	-3.7	1.9	0.6	n/a	-0.4 <u>1/</u>
<u>Public Sector</u>								
Sub-total (in millions)	3.2	3.5	3.7	4.0	4.2	4.3	n/a	
Growth (%)	-	9.4	5.7	8.1	5.0	2.9	n/a	5.4 <u>1/</u>
<u>Employment Gap ^{2/}</u>								
Total (in millions)	1.2	0.7	1.5	2.6	2.9	3.5	4.8	
Growth (%)	-	41.7	114.3	73.3	11.5	20.7	37.1	33.8
As share of labor force (%)	6.0	3.4	7.0	11.7	12.6	14.7	19.4	
<u>Mean Real Wages (1980=100)</u>								
In Manufacturing	100.0	101.2	103.6	75.3	72.1	73.3	n/a	-10.3 <u>1/</u>
Change (%)	-	1.2	2.4	-27.3	-4.2	1.7		
In Construction	100.0	103.3	101.3	79.2	73.2	70.1		
Change (%)		3.3	-1.9	-21.8	-7.6	-4.2	n/a	-11.2 <u>1/</u>

^{1/} 1983-1985.

^{2/} Defined as that part of the labor force not employed in the formal wage market. It is presumed that most of these individuals have obtained employment elsewhere, either in the informal domestic labor sector or abroad.

n.a. - not available

Sources: Banco de Mexico; SPP/Inegi; SHCP; and the IMF.

employed abroad, blocks deeper analysis, but, at the very least, the data suggest that underemployment may be an increasingly serious problem.

Mexico's Growth-Oriented Program for
Adjustment and Structural Change

55. The deterioration in fiscal/monetary trends during the first half of 1985 coincided with a substantial delay in completing negotiations with the IMF for the third-year EFF program. The first drawing under the 1985 program was made only on June 7 of that year. Thereafter, the Government made no further drawings until the program expired at the end of 1985. The halt in drawings resulted after it became clear that some of the performance criteria built into the program for end-June, end-September, and end-December 1985 would not be satisfied.

56. To deal with the imbalances leading to the breakdown of the EFF, the Government followed up its announcements of major shifts in trade and exchange rate policies with the presentation of an ambitious budget for 1986. The budget projected a decline in the public sector borrowing requirement from 10% in 1985 of GDP in 1985 to 5% in 1986. This implied an impressively large fiscal adjustment, made even larger by the allowances in the budget for higher interest payments on domestic public debt and special outlays for earthquake reconstruction, and for lower revenues from oil exports. It corresponded to an increase in the primary surplus from 3.3% in 1985 to over 9% of GDP in 1986. However, once it became clear that the decline in international petroleum prices and in Mexico's oil export earnings would far exceed the 1% of GDP loss previously assumed, the original budget had to be scrapped, and a new policy program developed.

57. Much of 1986 has been occupied with efforts by Mexico, with strong support from certain segments of the international community (chiefly the multilateral financial institutions), to devise a growth-oriented program of adjustment and structural change, and to negotiate agreements with external creditors which would be vital to the program's success. These agreements included an 18-month stand-by with the IMF, providing SDR \$1.4 billion (US\$0.3 billion net); a package of US\$2.3 billion in net IBRD disbursements financing traditional investment projects, providing quick-disbursing policy loans, and loan guarantees with a present value estimated at roughly US\$0.2 billion; a pledge of US\$0.4 billion in net lending from the IDB; and accords with commercial and bilateral creditors for additional new money in the amount of US\$7.7 billion and to reschedule debt service on US\$70 billion of existing debt.

58. The elements of this complex exercise started to materialize in a joint announcement on July 22, 1986 that the IMF and the IBRD had concluded agreement with the Mexican Government on a package of policy reforms to which they had pledged US\$4 billion over the period of 1986-87, and for which the financial support of other creditors was welcomed. A meeting of the Paris Club, convened in mid-September 1986 led to rapid agreement between Mexico and its bilateral creditors on a rescheduling of US\$1.8 billion in credits. This was followed in October by an accord between the Mexican Government and the Steering Committee of Foreign Commercial Banks to obtain US\$6 billion in

new money and debt relief and an additional US\$1.7 billion in contingent finance. Although originally the adhesion of commercial bank creditors representing at least 90% of the total pledged amount was planned for completion by early December 1986, delays stemming from reluctance by some banks to assume their pro rata share of additional exposure blocked reaching the critical mass until the end of April 1987, when disbursement of the first US\$3.5 billion tranche finally took place.

59. The delays in completing the commercial bank component of the financing package may have added to the costs of adjustment. The recovery of the economy was correspondingly delayed by the lack of credit, and the rate of inflation may have been forced higher than what might otherwise have been necessary by the need to replace delayed external financing with inflationary primary credit from the Central Bank. Interest rates and the rate of peso devaluation had to be raised to exceptionally high levels to cover external financing gap and divert even more resources than expected from the private sector to finance the fiscal deficit. (One estimate is that public sector borrowing costs were about 0.5-1.0% of GDP higher during the December 1986-April 1987 period than they might have been if the commercial bank financing had been available by December). Moreover, the framework of the debt restructuring negotiations was supposed to reflect a sharing of the financing of the oil price shock with external creditors until Mexico could complete its domestic adjustment. Hence, when commercial bank funding was delayed, some sectors of public opinion in Mexico, expressed concern that Mexico was assuming a disproportionate share of the adjustment burden.

60. Nevertheless, the Government did not await implementation of the financing agreements to begin implementing key components of its program. Cuts in transfers and subsidies to CONASUPO and to the sugar, fertilizer, steel, railroad and power parastatals, increases in value-added and social security taxes, and major adjustments in public prices for gasoline, power, basic foodstuffs, and other services resulted in an increased fiscal effort equivalent to roughly 2.2% of GDP during 1986, i.e. when measured at the level of the non-oil primary balance (see Table 1.8).^{6/} To ease the pressure on the balance of payments, the controlled exchange rate was depreciated in real terms by about 2-1/2% monthly through the end of 1986, essentially eliminating the spread between the "free" and controlled rates from December 1986 through May 1987. Rising inflationary pressures, and the large imbalance between the size of the fiscal deficit and the availability supply of domestic credit, triggered a crowding out of the private sector, and increases in interest rates on financial assets to unprecedented real levels.^{7/} During the last quarter of 1986 and the first quarter of 1987, broad money (M5) was growing at a 15-20% annual real rate, reversing the sharp decline which had started in early 1985. Between December 1985 and July 1986, banking credit to the private sector was frozen at the nominal level outstanding at the end of October 1985. During the latter half of

^{6/} The non-oil primary balance is the measurement of the fiscal outcome of all public sector spending except payments of interest on the peso-denominated public debt, and all revenues, except those derived from oil-based export revenues and domestic taxes.

^{7/} In December 1986, interest rates on short-term banking deposits had risen to 150% on a compounded basis, yielding nearly 22% annually in real terms.

1986, credit restrictions were relaxed only slightly. For all of 1986, the volume of real credit channeled to the private sector fell by 17%.

61. The pace of structural reform has also accelerated, particularly since July 1985. Some of these steps, such as liberalizing imports, promoting non-oil exports, reducing public sector non-financial spending, and diminishing food subsidies and controls on agricultural marketing were already discussed in paragraphs 30-33, 36-37, and 51. However, action has by no means been confined to these areas. Among the other reforms initiated should be mentioned:

Parastatal Enterprise Management

- As of May 1987, the number of public entities had declined to around 580, compared with 1155 in December 1982.
- A major basic steel processor -- Fundidora -- was closed in June 1986, eliminating 6,000 jobs in the plant, and as many as 5,000 additional jobs among dependent private sector suppliers.
- CONASUPO (see paragraph 51 and Table I.22)
- In the fertilizer sector, three obsolete and polluting plants have been shut down, the distribution system improved, and staffing levels reduced.
- In the sugar sector, two state-owned mills have been closed with the elimination of 2,400 jobs. Six additional mills will soon be closed. The remaining mills have been assigned physical targets for productivity and efficiency to evaluate the desirability of keeping them in operation.
- The national railroad is carrying out a major restructuring with support from World Bank lending.
- Shipyards are being restructured to benefit from new technology.
- Structural reorganization proposals for the state oil company, the petrochemicals industry, Aeromexico^{8/}, the steel complex, (SIDERMEX), and the state truck manufacturing firm (DINA) are in an advanced stage of policy review. Implementation has advanced quite far in some enterprises, such as SIDERMEX and DINA.

Foreign Direct Investment

- The Government clarified the basic legislation regulating foreign investment in stages over the 1984-1986 period. The published

8/ One of two state-owned airlines, the other having already been put up for sale.

rules identify those sectors where the share of foreign ownership of local companies is unrestricted, partially restricted, or prohibited. In nine major sectors -- non-electrical machinery and equipment, electrical machinery and products, metal mechanics, electronic equipment and spare parts, transportation equipment and materials, chemicals, high-technology services, hotel industry equipment and operation, and other manufacturing industries (excluding petrochemicals and auto components) -- 100% foreign ownership is now permitted. Projects promising acceptable levels of non-oil exports are similarly eligible. This compares with a normal statutory limit on the foreign ownership share of 49% in those sectors where foreign investment is permitted.

- As of the end of 1985, foreign shareholders had more than 49% of the ownership in over 40% of companies with foreign participation.
- The administrative review of petitions for new or additional foreign investment has been simplified and shortened. Some operations -- such as raising the level of foreign equity participation in an enterprise already majority foreign-owned, or transferring stocks and assets among foreign investors -- no longer require official authorization, only pre-notification. This has reduced the number of cases subject to review by 60% in 1985 compared to 1983, and reduced the average period for review and final decision by over 40% (from 198 to 114 days).
- Export-oriented projects can now receive automatic approval within 30 days of initial application.
- Small and medium-scale enterprises may be majority foreign-owned, so long as at least 35% of their output is exported.
- In 1985, foreign investment authorizations reached nearly US\$1.9 billion, surpassing the peak level reached in the boom year of 1981. During the first quarter of 1986, 47 of the 48 applications received by the National Commission on Foreign Investment were approved.
- Between 1983 and 1985, the number of enterprises with foreign equity participation increased by 14% to nearly 7,000; registered new investment amounted to US\$4 billion, of which US\$1.5 billion (37%) did not require authorization. At present, approximately 30% of merchandise non-oil exports are produced by enterprises with some foreign ownership.
- In 1986, inflows of foreign direct investment are estimated to have doubled over the level of 1985 to approximately US\$1 billion.
- In-bond industries are now permitted to market up to 20% of their output within Mexico, provided there is no competing domestic product.

- The Government recently launched a debt-equity conversion program whereby foreign investors may acquire Mexican public sector external debt at discounts of up to 30% in the secondary market. The debt may be converted into pesos at the free exchange rate to finance officially-approved equity investments, including purchases of equity in state-owned companies, new capital expenditures, repayment of peso loans from Mexican nationalized banks, prepayment of the (FICORCA) peso obligations and rescheduled external debt of the private sector, and payments to domestic suppliers. Deals amounting to about US\$1.6 billion were approved during 1986, of which US\$700 million involved public debt. A higher rate of conversions is anticipated in 1987.

Subsidies and Price Controls

- The volume of interest rate subsidies channeled through official development banks was reduced from 5.4% of GDP in 1982 to an estimated 3.7% in 1986. Federal government transfers to these institutions fell from 1.7% of GDP to 0.6% of GDP.
- Higher real retail prices on a controlled basic agricultural consumer goods have been coupled with a reduction in CONASUPO's marketing volume. As a consequence, subsidies to the consumption of basic agricultural goods decreased by over 80% in real terms between 1983 and 1986. Food subsidies are now in effect only for tortillas.
- Increases in the real domestic prices of oil derivatives, along with decreases in the volume sold (except for fuel oil), led to a reduction in implicit fuel subsidies from 4.6% of GDP in 1982 to 2.1% in 1985. Real gasoline prices (leaded) had increased by 44% in real terms during the 1982-86 period.
- Price increases have virtually eliminated subsidies for potassium-based fertilizers.
- Train cargo rates were raised 46% in real terms between 1983 and 1985.
- Subway fares in Mexico City were raised 20-fold in August 1986.
- By March 1987, controlled prices had been raised 18.6 times (about 16% in real terms), relative to average 1982 price levels, compared to 16.0 times for non-controlled prices.

External Capital Flows

- Prior to the collapse of international oil prices in early 1986, Mexico had substantially reduced its reliance on foreign savings and on new foreign borrowing. By the end of 1986, external debt was only 13% above its level at the end of 1982, an annual average increase of 3%, compared to increases of 30% annually from 1978-1982.

- The resource (trade) balance shifted from an average deficit of US\$1.5 billion annually during 1980-82, to an average surplus of over US\$12 billion in 1983-1985. Even in 1986, when Mexico experienced a nearly 60% loss in oil export revenue, the trade surplus reached nearly US\$6 billion.
- The current account balance shifted from deficits averaging US\$11 billion annually during 1980-1982, to surplusses averaging over US\$3 billion annually during 1983-1985.
- Capital flight (defined as the sum of gross capital inflows and the current account deficit, less increases in foreign reserves), which may have averaged around US\$7 billion annually during 1979-1982, was reduced to less than half that level during 1983-1985. And in late 1986 and early 1987, the private sector was repatriating capital at the rate of US\$200-500 million monthly.

Policy Content of the Program, 1986-87

62. With the economy already in a deep recession, the Mexican authorities judged that an attempt to compensate immediately and fully for the loss of oil export earnings (equivalent to nearly 7% of GDP in 1986) through domestic adjustment alone would not have been economically or politically sustainable.

63. To buy additional time to adjust and to involve external creditors in sharing the burden of adjustment, the Government negotiated an 18-month program covering the period of October 1986 to March 1988. The program contained several key features:

- (i) it provided for continued adjustments in domestic macro-policy intended to lay the foundation for moderate growth in 1987-88;
- (ii) it called upon commercial and bilateral official external creditors to reschedule payments on past external debt obligations amounting to approximately US\$70 billion, and to provide, jointly with the international lending institutions -- the IMF, the IBRD, and the IDB -- US\$10.7 billion in net new money over the program period. In this way, part of the shortfall in resources triggered by the loss of export earnings could be financed from abroad, giving Mexico additional time in which to complete the adjustment, while not foregoing prospects for renewed growth;
- (iii) it included certain contingent financing mechanisms designed to cushion the economic program from unforeseen new shocks which might jeopardize its implementation; and
- (iv) it called for the continuation of a number of far-reaching structural changes to accelerate the shift from an oil-dependent economy, complete the trade liberalization process, opening of the economy, boost non-oil exports, strengthen creditworthiness, and streamline public sector management. The latter would include a restructuring of key parastatal enterprises and a more focussed, efficient public sector investment program.

Macro-economic Policy

64. Strengthening public finances was a key component of the program. The impact of declining oil prices on revenues, and of higher inflation on interest payments, led to a major increase in the PSBR, from 9.9% of GDP in 1985 to 16.1% of GDP in 1986. On the other hand, as noted earlier, the primary domestic fiscal deficit declined in 1986 by over 2% of GDP, reflecting a number of fiscal measures taken during the course of the year. The Government's new program called for further fiscal adjustment amounting to about 2.3% of GDP in 1987. This adjustment would be distributed approximately as follows:

<u>Measure</u>	<u>% of GDP</u>
<u>Increases in Tax Revenues</u>	<u>1.1</u>
(Elimination of Corporate Deduction of Interest Payments)	(0.5)
(Interest Charges on Unpaid Tax Obligations)	(0.3)
(Increases in Minimum Value-Added Tax Rates)	(0.3)
<u>Increases in Public Prices and Tariffs</u>	<u>1.2</u>
(Higher Fuel Prices and Gasoline Taxes)	(1.4)
(Other Public Enterprise Goods and Services)	(0.6)
Less,	
(Revenue Short-falls in Decentralized Agencies and Social Security)	(-0.8)

65. As is clear from the above, the new measures were predominantly revenue-raising, rather than expenditure-reducing. The Government believed the margin for further reductions in programmable expenditures was limited by the large reductions in outlays which had already occurred, and by the need to increase public investment spending from its currently depressed level, if only to cover the depreciation of the public sector's existing capital stock.^{9/}

66. Assuming that oil export revenues provide fiscal revenue equivalent to nearly 6% of GDP in 1987, and under certain other assumptions about macro-economic performance to be discussed below, the measures under this program would be sufficient to produce a surplus on the primary fiscal balance (defined as the PSBR net of all interest payments) of around 5.4% of GDP in 1987, compared with a surplus of 2.3% in 1986, an improvement of about 3.1% of GDP on a year-over-year basis. The size of the PSBR will depend on how non-programmable spending evolves, especially payments of interest on

9/ Public investment outlays totalled 5.3% of GDP in 1986, of which about 1.2% represented investment in oil and gas production and distribution. Non-petroleum investment spending was, thus, around 4.1% of GDP, which is the lowest level observed since the 1960s.

the public debt. These are expected to be higher in 1987, because of higher rates of inflation through at least the first half of the year, and higher real interest rates on service of the public internal debt. The interrelationship of inflation, interest payments, and the size of the PSBR being financed, ex ante and ex post, raises key policy issues to be discussed below.

67. The structure of domestic interest rates has been improved. A majority of preferential credit rates now operate at margins or discounts fixed in relation to the Average Cost of Funds (ACF), and have been made variable. The lowest of these variable rates is now 74% of ACF (equivalent in March 1987 to about a 113% annual rate of interest), although some housing lines of credit have lower rates calculated by a non-ACF formula. The ACF itself yielded positive real interest rates, 6% annually on average during 1986, although it went as high as 21% in late 1986. At that time, annualized lending rates in the non-controlled segment of the commercial bank credit market reached real levels of 25% or more, relative to trailing quarterly rates of inflation, before declining to close to 0% in May of 1987. Most lending rates have declined by similar magnitudes.

68. With respect to the exchange rate, even though the real effective depreciation of the controlled peso reached 55% in the 18 months ended in December 1986. This was a major factor in limiting net foreign exchange losses to about US\$1 billion for the year, well below the loss originally allowed for in the program. The dual exchange rate will be maintained, but the authorities have pledged to narrow the spread between the two rates (below 1% in the first four months of 1987) with a view to eventual unification.

Financial Package for 1986-87

70. The financial package arranged to provide Mexico with adequate foreign exchange liquidity over the 1986/87 period was perhaps the largest and most complex ever concluded for a major debtor nation in recent decades (see Table I.24). It provided US\$10.7 billion in new money, US\$2.3 billion in contingent financing, and rescheduling of the service falling due on US\$70.5 billion of existing external debt.

71. Over half of the new money (US\$6 billion) is being provided by the approximately 500 commercial bank creditors of Mexico, of which US\$5 billion as a syndicated loan (Parallel Facility), and US\$1 billion as B-loan cofinancing with the World Bank of transport projects. Maturities and grace periods are for twelve and five years on the Parallel Facility, and fifteen and nine years on the cofinancing component. The cofinancing component, with its more liberal terms, is also covered by a non-accelerable World Bank guarantee of the outer-year payments in an amount of US\$500 million.

72. The multilateral development banks are committed to provide up to US\$2.7 billion in long-term credits, of which US\$2.3 billion would be provided by the World Bank. In addition to net disbursements of US\$2.1 billion from direct lending, the World Bank total also includes the net

**Table I.24: MEXICO: SUMMARY OF TERMS AND AMOUNTS OF 1986-87
FINANCIAL PACKAGE BY MAJOR CREDITOR GROUP
(in U.S. billions)**

<u>Type of Flow/Source</u>	<u>Amount</u>	<u>Terms</u>	
		<u>Maturity/Grace</u> (Years)	<u>Interest Rate</u> (%)
<u>New Money</u>	<u>10.7</u>		
Commercial Banks	6.0 ^{1/}		
(Parallel New Money Facility)	(5.0) ^{2/}	12/5	LIBOR + 13/16
(Cofinancing New Money Facility)	(1.0) ^{3/}	15/9	LIBOR + 13/16
Multilateral Development Banks	2.7		
(IBRD)	(2.3) ^{4/}		
(IDB)	(0.4)		
IMF Stand-by	0.4 ^{5/}		
Japan	1.0 ^{6/}		
CCC	0.6		
<u>Contingent Money</u>	<u>2.3</u>		
Commercial Banks	1.7		
(Investment Support Facility)	(1.2)	8/4	LIBOR + 13/16
(Growth Cofinancing Facility)	(0.5) ^{7/}	12/7	LIBOR + 13/16
IMF Oil Contingency Mechanism	0.6 ^{8/}		
<u>Debt Restructuring</u>	<u>70.5</u>		
Commercial Banks	68.7		
(Pre-1983 Debt)	(43.7)	20/7	LIBOR + 13/16
(1983-84 Debt)	(8.6)	14/5	LIBOR + 13/16
(Private FICORCA Debt)	(11.2)	Terms comparable to those covering public debt to be negotiated.	
(Interbank Credit Lines)	(5.2)	Level to be maintained until 6/30/89.	
Paris Club	1.8 ^{9/}	10/5	Appropriate market rates.

- ^{1/} Disbursements contingent upon compliance with IMF stand-by and implementation of specific World Bank loans. Of total, US\$3.5 billion would be released in December 1986, with the remaining US\$2.5 billion being disbursed in 5 quarterly tranches starting on January 1, 1987.
- ^{2/} Sum to be reduced by the amount Mexico saves as a result of the shift from a prime rate to a LIBOR reference rate and lower spreads on restructured debt during 1987. This savings is estimated at around US\$300 million.
- ^{3/} B-loan cofinancing with World Bank transport sector loans. A non-accelerable World Bank loan guarantee for US\$500 million is also provided.
- ^{4/} Includes present value of two World Bank guarantees totalling US\$750 million, whose present value is estimated at US\$200 million.
- ^{5/} The IMF stand-by would provide SDR1.4 billion in gross financing over the period of October 1, 1986 to March 31, 1988. At current SDR-U.S. dollar conversion rates, this would amount to approximately US\$1.7 billion.
- ^{6/} Includes cofinancing of US\$250 million with the World Bank Second Export Development Policy Loan, US\$250 million for steel projects, and US\$500 million for the Pacific Petroleum Project.
- ^{7/} Covered by a US\$250 million non-accelerable loan guarantee of the World Bank.
- ^{8/} The IMF commitment is for the lesser of SDR600 million or US\$600 million.
- ^{9/} Rescheduling of 100% of the principal and 60% of the interest falling due on debt outstanding as of the end of 1985 during the period of October 1, 1986 to March 31, 1988.

Source: IBRD staff estimates.

present value (around US\$200 million) of two loan guarantees with a face value of US\$750 million. To achieve a net disbursement level of over US\$1.1 billion annually, new World Bank lending commitments will need to average US\$2.0 billion annually during 1986-87, of which about half would be in the form of quick-disbursing policy-based loans in the areas of trade liberalization, industrial restructuring, agricultural reform, and public enterprise management. These commitments would triple the average level of World Bank lending to Mexico over the 1981-1985 period.

73. Through the IMF stand-by, Mexico would receive up to SDR1.4 billion (approximately US\$1.7 billion at the moment of signing) in gross financing through the first quarter of 1988, about US\$0.4 billion net. Finally, Japanese lenders are providing US\$1 billion for steel modernization and petroleum export diversification projects, while the U.S. Commodity Credit Corporation (CCC) has committed to US\$600 million.

74. In addition to the new money, over US\$70 billion in existing external debt was restructured. Maturities and grace periods on commercial bank loans extended prior to 1983 (US\$43.7 billion) were lengthened from 14 and 5 years under the previous arrangement, to 20 and seven years under the new one. The interest rate spread was lowered to 13/16 of one percentage point over the London Inter-Bank Offer Rate (LIBOR) for the lifetime of the restructured loans. On the nearly US\$9 billion in debt incurred during 1983-84, maturities and grace periods were left unchanged, but the interest spread was lowered as above. These agreements are expected to lower annual debt service on pre-1986 debt (assuming an average LIBOR of 7%) by about US\$300 million in 1987, and on new money by about US\$40 million. The reduction in annual debt service would reach US\$2.5 billion in 1989, and, with the exception of 1 or 2 years, remain more than US\$1 billion below the old debt service profile through 1998 (see Figure 3). The profile of debt service to exports, assuming a stable LIBOR and non-oil exports growing by 8-9% annually in real terms, would decline, mainly during the 1986-1992 period, and would match the debt service profile under the previous arrangement between 1993 and 1998 (see Figure 4). Similar results apply to debt service in relation to GDP, assuming 5% average annual real economic growth after 1990 (see Figure 5).

Contingency Money

75. One of the most innovative features of the financial package concerns the arrangements for contingent finance. The three facilities being provided by the commercial banks and the IMF, with World Bank support, are described below.

Oil Contingency Mechanism and Contingency Investment Support Facility

76. To protect the implementation of Mexico's program from disruptive shortfalls in export earnings over the next 18 months, two complementary contingent financing facilities have been arranged:

- (1) the IMF's Oil Contingency Mechanism, limited to the lesser of SDR600 million or US\$600 million; and
- (ii) the commercial bank's Contingency Investment Support Facility, limited to US\$1.2 billion.

77. The trigger for the IMF's Oil Contingency Mechanism is a price of crude oil exports which averages less than US\$9 per barrel in any quarter between October 1, 1986 and December 31, 1987. The financing is to be determined by first calculating the price shortfall against the US\$9/per barrel reference price (up to a maximum shortfall of US\$4.07 per barrel), then multiplying it by the reference volume of daily oil exports (1.2 million b/d during the last quarter of 1986, 1.3 million b/d during 1987). Any shortfall incurred between October 1, 1986 and March 31, 1987 would be fully financed by external creditors. Thereafter, the maximum share of the shortfall eligible for financing would decline quarterly from 80%, to 60%, to 40%.

78. The Oil Contingency Mechanism would cover the first US\$200 million in additional financing triggered under its mechanism. Thereafter, the commercial banks through a Contingent Investment Support Facility, would match IMF financing in a ratio of 3:1. The Contingent Investment Support Facility would be triggered by:

- (i) the prior triggering of the IMF's Oil Contingency Mechanism;
- (ii) certification by the IMF (after consultation with the Mexican Government and the World Bank) that a disbursement under the Facility is necessary to protect the ongoing implementation of the Government's budgeted public sector investment program; and

FIGURE 3

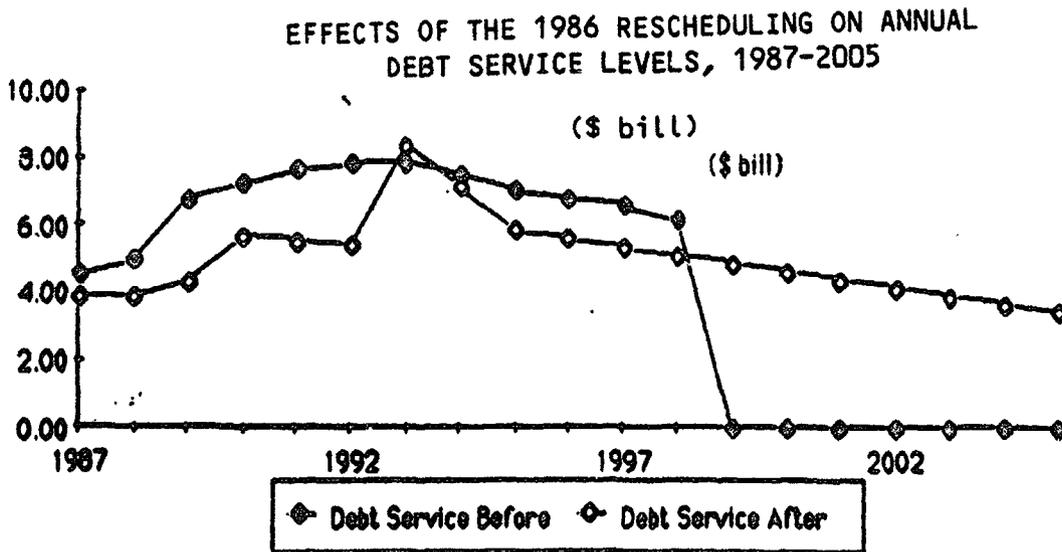


FIGURE 4

EFFECTS OF THE 1986 RESCHEDULING ON THE RATIO OF DEBT SERVICE TO EXPORTS OF GOODS AND NON-FACTOR SERVICES, 1987-2005

(% of Exports)

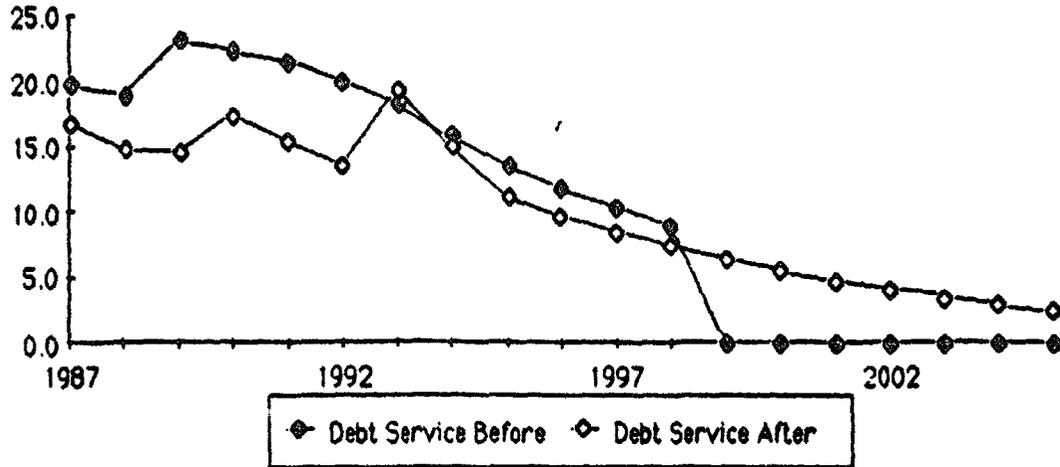
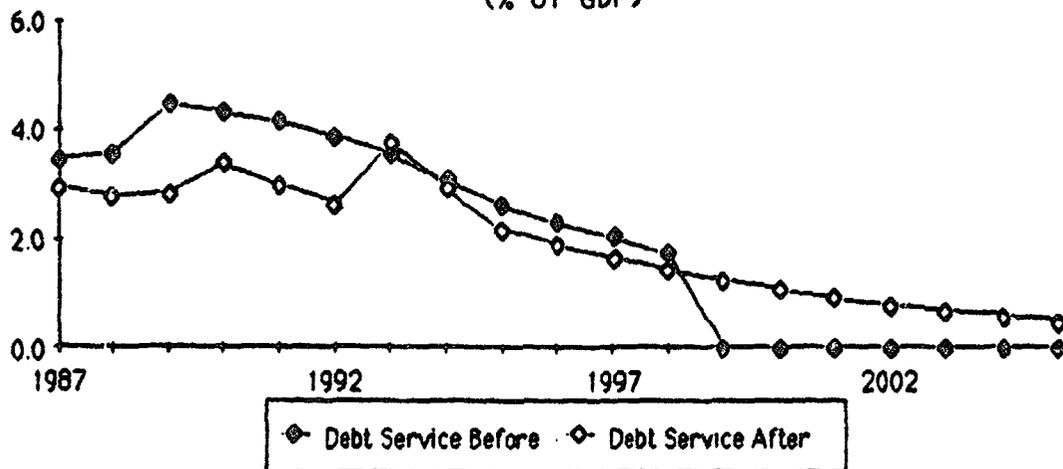


FIGURE 5

EFFECTS OF THE 1986 RESCHEDULING ON THE RATIO OF DEBT SERVICE TO GDP, 1987-2005

(% of GDP)



- (iii) certification by the IMF and the IBRD that Mexico is in compliance with all conditions established for the Parallel New Money Facility.

If Mexico's non-oil public sector export earnings, or the volume of its crude oil exports, exceeded (or fell short of) the levels assumed under the program, the contingent lending obligation of the commercial banks (but not that of the IMF) for the particular quarter would be reduced (or increased) accordingly within a predetermined band.

79. If the average price of oil were to exceed US\$14 per barrel for any quarter between October 1, 1986 and the end of 1987, the additional revenue (calculated in accordance with the Oil Contingency Mechanism) would be used to repay Mexico's existing drawings from the Contingent Investment Support Facility and/or other new money facilities, lower pending commitments, and to accumulate net foreign reserves above program targets. Under present and projected average prices for Mexico's oil, it is not expected that either the

Oil Contingency Mechanism or the related Investment Support Facility will be triggered for the duration of the program.

Growth Contingency Cofinancing Facility

80. Mexico's commercial bank creditors agreed to provide up to US\$500 million for a Growth Contingency Cofinancing Facility. Providing certain conditions were triggered, this Facility would become available for investment projects identified as having significant employment generation and spillover effects on the private sector. The projects would be in areas where the World Bank has ongoing programs, and half of the amounts drawn under the Facility would be guaranteed by the World Bank.

81. The triggering of the Facility was scheduled to occur if:

- (i) by the end of March 1987, Mexico's economic recovery were not to materialize, despite the effective implementation of the policy program; and
- (ii) the World Bank had confirmed that suitable projects had been identified jointly with the Government.

82. In mid-May of 1987, the Government confirmed that real manufacturing output in the first quarter of the year had been negative, relative to the same quarter of 1986, thus triggering the release of the Growth Facility. The funds are financing projects chosen for their employment-generating effects and their positive spill-over effects on private sector output.

83. Amounts outstanding under this facility as of March 31, 1988 are repayable in 12 years from the date of each disbursement, with seven year's grace. The interest rate will be 13/16 of one percent over LIBOR or the equivalent reference rate.

Key Economic Issues

84. Only resolute policy action over the past year-and-a-half has prevented Mexico's exceptionally difficult macroeconomic situation from becoming far worse. The decision to accelerate, rather than slow down, import liberalization at a time when the balance of payments and foreign reserves were coming under maximum stress, showed remarkable political courage, as did the decisions to eliminate many subsidies, close down or restructure certain public enterprises, engineer a massive real devaluation of the peso, impose sharp new public spending cuts, reform the corporate tax system and improve collections, and correct lagging public tariffs.

85. In many respects, there are grounds for prudent optimism about the economic outlook. The worst of the terms of trade losses occasioned by the decline in oil and other commodity prices may now be past; indeed, some modest recovery in oil earnings during 1987 appears likely. Non-oil exports are booming. Foreign interest rates perceived by commodity-exporting developing nations appear to be declining in real terms, despite a recent run-up in nominal rates. Foreign investor interest in Mexico is rebuilding rapidly, bringing gains in jobs, growth, and export earnings. The economy shows some signs of having bottomed out in the first quarter of 1987. And deposits in the commercial banking system have begun to recover rapidly in real terms since August 1986, now that positive domestic-foreign interest rate differentials have been reestablished.

86. But there are also concerns that the near-term international climate may become less favorable to Mexico's recovery. To longstanding concerns about slow world economic growth, the heavy burden of external debt, and declining international terms of trade must now be added the possibilities of higher near-term interest rates on dollar-denominated debt and an intensification of protectionism in Mexico's major export market. These developments are ominous because of Mexico's heightened sensitivity to exogenous changes.

87. In this extraordinarily complex situation, there are a number of key domestic issues where sustained progress will be fundamental. Four in particular are:

- (i) implementing the key aspects of the growth and stabilization policy package embodied in the PAC and in the new IMF stand-by (and going somewhat beyond them in the fiscal and trade policy areas), so as to maintain a climate of macroeconomic incentives conducive to a sustainable recovery of output in a context of gradual disinflation;
- (ii) substantially accelerating trade liberalization -- for example by bringing forward the measures planned for end-1988 to mid-1987 -- so as to relieve pressures to appreciate the real exchange rate, strengthen the anti-inflation program, provide a sound environment for new investment, and reinforce long-term export competitiveness;

- (iii) continuing to raise the efficiency of resource use, not only through trade liberalization, but through a restructuring of the public sector, closer scrutiny of public investment options, rationalizing industrial incentives, completing tax and agricultural reforms, strengthening the financial sector, further reducing credit subsidies, and pruning away regulatory "underbrush" without undermining fundamental public policy goals; and
- (iv) according more emphasis in policies to job creation and to the alleviation of the costs of adjustment for the poorest.

Managing the Risks of Economic Recovery, 1987-88

88. It should in no way detract from the success of the 1986 policy program to acknowledge that the current economic situation is one of unprecedented delicacy, requiring continued vigilance, policy action, and the willingness to act quickly to cope with unforeseen changes of basic conditions. One imminent change stems, paradoxically, from the vigor and effectiveness of adjustment efforts in 1986. The reversal of private sector capital flight and the improvement in the non-oil trade balance have far exceeded expectations to the point that, even before the first tranche of a US\$6 billion foreign commercial bank credit could be disbursed at the end of April 1987, Mexico had accumulated net reserves during the preceding 6 months at the rate of nearly US\$1 billion monthly.

89. Several factors may act to slow the rate of reserve accumulation in coming months. Interest rate spreads on domestic relative to foreign assets (which exceeded 20 percentage points in late 1986) should narrow because of both rising rates abroad and faster depreciation of the free exchange rate in recent months. Higher interest payments on external debt, a recovery in import demand, and expectations of slower non-oil export growth during 1987 should also reduce net reserve gains. Still, on current trends, net capital inflows with a direct monetary impact could total as much as US\$10 billion during the November 1986-December 1987 period, which would be roughly two-thirds again the size of the narrow money supply (M_1) measured at the end of 1986.

90. The monetary impact of these large reserve increases poses urgent and critical choices for policymakers, especially now that a comfortable foreign reserve position has been restored. The lessons from the adjustment experience of 1983-85 are clear: the present surge of liquidity triggered by the monetization of large-scale foreign capital inflows must be staunched to forestall runaway inflation and/or a rapidly appreciating real exchange rate, negative real interest rates, and, eventually, a damaging setback to Mexico's balance of payments. Already inflation has trended up to an annualized rate, seasonally adjusted, of more than 120% during the first five months of 1987, and is accelerating rapidly; the growth of narrow money (M_1) has accelerated from 64% annually at the end of 1986 to 90 percent at the end of April 1987; the stock exchange has shown conspicuous vigor (175% expansion in the first quarter); nominal wage adjustments are becoming more frequent and larger (20% in January, 20% in April, with a further increase expected in June); some necessary price adjustments, particularly for gasoline and fuel oil, have

also added to cost-push inflationary pressures; and ex post real lending rates in the free credit market have fallen from more than 25% at the end of 1986 to around 0% in May 1987.

91. The 1987 fiscal program agreed with the IMF calls for an additional effort at the level of primary non-oil balance (defined as the public sector borrowing requirement net of all interest payments on public debt and revenues from public sector oil exports) amounting to about 2.3% of GDP. Public sector price adjustments, increases in tax revenue, and reductions in non-financial current expenditures, together with some projected recovery in oil export prices, are expected to yield a surplus on the primary balance (i.e., the "economic" fiscal deficit net of interest payments on the public debt and exchange losses) of around 5 to 5 1/2% of projected GDP. This would imply full absorption of the fiscal impact of the oil price shock in only two years. However, a sharp rise in real interest payments on public debt, which the Government believes likely, is reflected in a substantially higher ceiling on the operational deficit (defined as the PSBR net of the inflationary component of interest payments on the domestic public debt). Under the program, the operational deficit should not exceed 4% of GDP (compared with 1.7% in 1986). Likewise, the PSBR ceiling of 15.6% of GDP is slightly above the outcome in 1986. This is because the projected path of inflation is expected to remain above 1986 levels through at least the first half of 1987, thereby increasing nominal interest expenses on the public internal debt.

92. The fiscal component of the program would be reinforced by a marked reduction in the growth of Central Bank net domestic assets (from 90% in 1986 to 68% in 1987, relative to note issue); an exchange rate policy which seeks to maintain the current narrow differentials prevailing between the free and controlled rates, while defending the gains in international competitiveness won last year; continued liberalization of foreign investment rules, including extension of the benefits of debt-equity swaps to Mexican investors in priority sectors; continuing trade liberalization along the lines of the program announced in April 1986; and public enterprise restructuring. According to the program, gross reserve levels are planned to increase by some US\$5-6 billion, following two consecutive years of decline. By the end of 1987, they would be equivalent to about 4 1/2 months of imports. And the inflation objective is set at 85% on a 12-month basis.

93. In assessing the macroeconomic framework and its internal consistency, it appears that the large and partly unforeseeable shift in Mexico's foreign reserve position has radically altered the policy options. Reserve accumulations could easily exceed the amount targetted in the macroeconomic program by a wide margin, making it unlikely that the inflation objective could be achieved. Additional policy responses are called for to forestall the repetition of an outcome akin to that of the 1983-1985 period. Two measures in particular seem fundamental: accelerating trade liberalization and increasing public sector savings beyond the levels currently planned.

94. The three-year trade liberalization program which the Government announced in July 1986 has been properly viewed as a structural reform, mainly to improve the long-term efficiency of resource allocation. But in the present circumstances, there are additional short-term benefits to be derived from an acceleration of this program. By increasing imports, placing a lower ceiling on the rate of price increases, and absorbing excess capital inflows, a faster reduction of import barriers would help curb inflation, benefit consumers and efficient tradeable goods producers, and relieve upward pressure on the exchange rate.

95. In addition, a more active fiscal stance, aimed at raising the 1987 primary surplus by perhaps 1.5 - 2.0% of GDP above the level contemplated in the IMF stand-by, will likely be needed to generate the increased domestic savings that will finance the (non-inflationary) accumulation of reserves. Tightening fiscal policy (preferably accompanied by accelerated import liberalization) would relieve pressure on domestic financial markets and/or the need for financing the deficit from the inflation tax. A third measure would be to allow some gradual decline in interest rates on domestic savings instruments so as to deter further inflows of speculative short-term capital. (The Government has already begun to act in this area since April 1987). Fourthly, accelerating the on-going program of structural reforms, with a focus on strengthening the finances of public enterprises (e.g. through partial divestment, liquidation, or restructuring of the seven large-scale non-oil state companies having a significant budgetary impact), would bolster private sector confidence.

96. Open market operations might seem to offer a third instrument. They could absorb excess liquidity more easily and rapidly than fiscal contraction. But in the absence of increased fiscal savings, open market operations would place upward pressure on real domestic interest rates. At a time when Mexico's balance of payments position is strong, financial markets are expecting at least a temporary slowdown in the rate of peso depreciation, a factor which would reinforce the impact of open market operations in widening the yield advantage of domestic over foreign assets. This would only lead to more speculative capital, more monetization, and new inflationary pressures. For the present, then, the large overhang of external capital potentially seeking entry into local financial markets seems likely to neutralize the effectiveness of conventional monetary policy tools.

97. Lastly, a passive monetary stance, i.e., one which permitted present market forces to determine the direction of interest rates and the exchange rate, could have deleterious consequences. Absent any change in fiscal and trade policies, the result would be upward pressure on the real exchange rate and downward pressure on real interest rates, possibly for an extended period of time. The consequences for resource allocation, the opening of the economy, a sustained reduction of inflation, and the balance of payments could, ultimately, be severe.

98. The principal factors in restoring growth, then, would be (i) a sustained decline of inflation via the policy measures discussed above, (ii) stability in overall macroeconomic signals (especially the real exchange rate), and (iii) clear, sustained movement toward a more open trade regime. With these ingredients, recovery could originate from the export-oriented

sectors, such as in-bond industries, tourism, and fresh vegetable production, where investment and output have been growing rapidly since late 1985, and spread to the rest of the economy.

99. Looking beyond 1987, fiscal policy might better emphasize reductions in programmable spending, especially current spending, where progress has been comparatively modest. As can be seen in Tables I.18, between 1982 and 1986, government consumption and current transfers declined from 22.6% to 20.7% of GDP, a reduction of less than 2% of GDP. Most of this reduction (1.6% of GDP) occurred through huge reductions in real public sector wages and salaries. Yet, at the very time when real public wages were being cut by 40% or more, the number of public employees was expanding at an average annual rate of 5.4% (although the rate of expansion had declined by 1985 to under 3%).

100. Therefore, in searching for ways to further reduce current programmable spending, two areas offer some of the best opportunities:

- (i) accelerating the restructuring, merging, and sales of public enterprises. Of the nearly 600 public enterprises subject to "disincorporation" to date, most were rather small in terms of economic importance and budgetary impact. (The possible exceptions would be the Fundidora steel plant, the El Presidente hotel chain, and Mexicana Airlines). Also, the 580 enterprises still in operation are seven times more numerous than the public enterprises in existence in 1970, so that far more could be accomplished. Moreover, there are, in reality, seven major non-oil public enterprises which account for the near totality of parastatal enterprise deficits, and which absorb the "lion's share" of budgetary transfers. This is where future efforts to streamline could be focussed. Of the seven -- the Federal Power Commission, CONASUPO, FERTIMEX, the steel sector, the national railroads, the national trucking firm, and the national sugar company -- all have now reached some sort of restructuring agreement with the federal government. These agreements have been reached within the framework of a new Law on Parastatal Entities referred to earlier. Implementation of the law could be accelerated by clarifying a number of pending policy issues critical to the reorganization of these enterprises. These include (a) raising transfer prices and, correspondingly, output prices closer to international levels (e.g. SIDERMEX, PEMEX/FERTIMEX and PEMEX/CFE); (b) stepping up the rhythm of managerial and related reforms incorporated into a series of debt relief agreements reached between the federal government and certain enterprises (e.g. CONASUPO, FERTIMEX, and Azucar S.A. de CV); and (c) establishing timetables for phasing out government transfers to cover large operating losses (e.g., FERTIMEX and CFE).
- (ii) pruning public sector employment. It seems incongruous that during a period of budgetary crisis, public employment should have increased by an estimated 800 thousand employees during 1982-85, or about 23%. Some increases in employment may be justified in sectors where demographic pressures increased the demand for basic services, such as education, health, and public order. But in reality, the growth in public employment has far outpaced

demographic trends. Temporary employment in public works projects could be a means of alleviating the social effects of an adjustment program. But recruiting to the full-time public sector rolls gives a permanent character to programs that should be of temporary duration. More than one in every five employed persons now works in the public sector, up from one in six in 1980. In 1985, the Government launched a major program to manage public employment in such a way that the manpower needs of priority sectors could be met, while limiting the overall growth of the public rolls. Through selective dismissals, hiring freezes, and normal attrition, the rate of public employee growth was reduced from 8.0% in 1983 to 2.9% in 1985. (This was still faster than the overall rate of population growth of 2.3%). However, the longer-term goal consistent with better public personnel management would be to achieve some reductions in overall public employment, so as to bring manpower more into line with the decline in real public spending on non-financial goods and services of recent years (i.e., about one-quarter at present). In this way, the imbalance resulting from higher numbers of public servants having less resources with which to work, and the resultant losses of labor productivity, could be gradually reversed.

101. The brunt of austerity has been borne by public investment. Since some projects launched in the late 1970s and early 1980s (and only now being completed) included "white elephants" and serious cost overruns, not all investment cutbacks detracted from growth prospects. Still, reductions in key areas such as land transportation, agriculture, and petroleum production have been very large, indeed, so that selective increases in investment are warranted. However, greater efforts are needed to ensure that these resources are channeled to their highest productive use.

102. Some investment could still be trimmed if wasteful demand for public services were curbed through further tariff adjustments, notwithstanding the large catch-up increases in 1986/87. This conclusion applies in particular to electric power, and, in Mexico City, to water, telephones, and urban transport.

103. It is well to remember that, even with the recent increases in electric rates, power costs only about US\$0.03 per kilowatt hour, and in real terms is less than two-thirds the level attained in 1960. With these low rates, the Federal Power Commission has been unable to cover operating costs and financial overhead, let alone any part of its investment. In 1985, it received capital and current transfers from the federal government in the amount of US\$2.9 billion, although it would appear the comparable figure for 1986 was lower.

104. The new Mexico City subway fare, raised 20-fold in August 1986, still barely exceeded 1 U.S. cent in April 1987. The situation is similar for bus tickets, where fares are one-fifth the price of a bus ride in other regions. Following the decline in the value of the coin used as a telephone token, telephones in Mexico City were altered, so that no coin is now required. The underpricing of water in Mexico City may be the single most costly subsidized public service. Pumping water from distant low-lying

valleys costs ten times more than the pumping costs of cities with more accessible reservoirs. Yet, most consumers in the capital pay a flat rate, irrespective of the amount consumed.

105. More realistic public service prices might have the collateral benefit of reducing the flow of new residents from the interior of the country to Mexico City, easing severe congestion in the capital. And, of course, to the extent that low priority investments could be foregone, this would make room for greater increases in investments such as improved schools, roads, and transport links, where striking a satisfactory balance between high returns, a strong employment impact, and support for needed structural changes in production would be far more likely.

Accelerating Trade Liberalization

106. Beyond the macroeconomic arguments for accelerated trade liberalization, a number of structural factors suggest 1987 could be the year to complete this process:

- (a) although only about half as large at the end of 1986 as at the end of 1985, disparities in average effective production remained wide across industries (from -82% to 22%), meaning resource allocation remained significantly distorted;
- (b) major private and public sector decisions on investment are imminent; and
- (c) the highly favorable foreign exchange and real exchange rate positions at present minimize the risks to the Government and producers of accelerated liberalization;

107. Phasing out non-tariff barriers except for those based upon health, public welfare, or constitutional considerations (mainly oil), would mean that imports competing with nearly three-quarters of domestic production could be freed (compared with two-fifths as of February 1987). The roughly 500-600 official reference prices, a large number of which were lowered in February 1987, might be eliminated immediately, rather than waiting until the end of 1987, as currently planned. Narrowing the disparities in effective tariff protection rates during 1987 (particularly between industry and agriculture) would also be highly beneficial for both macro-policy management and efficient resource allocation.

Raising the Efficiency of Resource Use

108. The scarcity of savings to finance investment and growth is likely to be a constraint within which the economy will be compelled to operate for some years to come. Therefore, prospects for growth will depend more than ever on achieving sustained improvement in the efficiency of resource use. This explains the prominence accorded to structural change in the Government's 1986-87 program. Beyond the gains in resource efficiency it would bring about, a coordinated and ambitious package of structural measures could impact favorably on the public's expectations about the success of the stabilization program. Policy makers could do worse than focus their priorities in the following areas:

- (a) Rationalizing Industrial Incentive Programs. Complementary action would be needed to rationalize industrial incentives in tandem with trade liberalization. In particular, domestic price controls, sector programs, the fiscal incentives (CEPROFI) system and the future role of industrial public enterprises merit priority review. To start, price controls, although considerably relaxed since 1982, still cover approximately one-third of non-oil domestic value-added, accounting for a significant part of the negative implicit effective protection currently present in key sectors such as steel.^{10/} The trend toward removing or relaxing price controls, as trade restrictions are taken off, should be encouraged, especially in areas such as agriculture, steel, and fertilizers, where little headway has yet been made.

Secondly, the sectoral programs, as originally designed in 1983-84, tended to create a significant policy-based barrier to entry at the final product level, and diminished the efficiency and productivity of intermediate suppliers. Since downstream customers were obliged to meet high minimum domestic content requirements in order to receive related tax, credit, and other program benefits, the new sector programs virtually guaranteed captive clients for suppliers. Three such programs are now in effect for autos, pharmaceuticals, and computers, while eight are pending. The Government might consider restructuring the sector programs (a process already underway with computers) so that they (i) offer temporary, duty-based protection only to new entrants in sectors with clear potential to compete internationally; (ii) replace domestic content requirements for downstream customers with a duty drawback system for input suppliers, (iii) are open without distinction to all firms in a qualifying sector; and (iv) are compatible with the efficiency aims of the trade liberalization program.

Turning to a third area, fiscal incentives remain distortionary. They have usually provided their most generous tax benefits to investments in the most protected sectors--the capital goods, basic chemical, and consumer durables industries. Subsidized projects have mainly benefitted two dozen or so of the largest companies. Since 1983, the rationale for this broadly-based program of fiscal incentives has undergone review, with a consequent reduction in tax benefits to about 0.5% of GDP in 1985, or about one-quarter of the maximum size reached in the early 1980s. The remaining tax subsidies might now be restricted to those sectors and projects identified as likely to be highly competitive under the open trade regime being introduced.

^{10/} A World Bank Steel Sector Strategy Review (Report No. 6429-ME of October 3, 1986) indicates that the largest publicly-owned steel group, SIDERMEX, absorbed an average net loss of US\$54/ton on domestic sales at controlled prices, or US\$157 million for all of 1985. Another US\$35 million was lost on exports.

Finally, parastatals such as PEMEX, SIDERMEX, FERTIMEX, and the Federal Power Commission play critical roles in defining the overall industrial climate. They are, simultaneously, powerful sources of procurement stimulating upstream suppliers, officially-favored competitors, and, in many cases, arbiters whose decisions can determine the fate of downstream industries dependent upon them for basic inputs. When these inputs are of irregular quality, high cost, or uncertain deliverability, dependent clients may find it impossible to compete in an open trade regime. And fears that key parastatals might succumb to wider competition stiffen resistance to policy reforms. Therefore, the restructuring of these parastatals forms an integral part of Mexico's general plans for industrial rehabilitation and trade liberalization. Under the terms of the new 1986 Law on Parastatal Entities, managers are to be granted greater freedom from budgetary and ministerial controls over daily operational decisions. They would, in turn, be held accountable for the enterprise's performance against financial, social, and other objectives. Clearly-defined performance goals are essential, together with commitments from the public powers to support these goals (such as by agreement on timeframes for achieving real tariff levels compatible with financial soundness and efficiency). Staff incentives could also be linked directly to success or failure in meeting agreed goals. Examples might be worker bonuses, a career promotion ladder for professional managers, competitive salaries designed to attract specialized skills, and linkages between salary adjustments and the introduction of changes in work rules and other productivity-raising measures. For some public enterprises, privatization cum elimination of current production monopolies might represent the cheapest and most effective long-term solution. Or, as an alternative, parastatal monopolies could be broken up into regional companies, and/or subjected to limited competition from the private sector.

The accelerating pace of announcements about enterprise restructurings throughout 1986 has been a heartening policy development. However, the pace of improvements appears to have slowed markedly in 1987. Plans for action covering parastatals like FERTIMEX and SIDERMEX could be advanced more quickly, following some variant of the workable program proposals under review since mid-1986.

- (b) Completing Agricultural Reform. As in a large number of developing countries, agriculture in Mexico has suffered secularly declining internal terms of trade and diminished export competitiveness. Policies associated with import substituting industrialization, as well as the effects of the "Dutch disease" triggered by the oil boom of the 1970s, discouraged farm activities. Rapid changes in macroeconomic and sectoral policies are now benefitting agriculture's recovery. Improved price incentives to agricultural producers, and the elimination of most food subsidies to final consumers have introduced a climate of positive change. Better

incentives, favorable weather, and recession-induced declines in domestic demands have led to a roughly 50 percent reduction in imports of basic commodities since 1980. Still, price controls, backed by quantitative trade restrictions, credit controls, and input subsidies, continue to distort profitability and reduce efficiency. And now that global food subsidies have been nearly eliminated, programs to protect low-income consumers' basic food requirements are in need of strengthening.

If agricultural trade QRs were replaced with moderate tariffs, and price controls greatly relaxed, the internal terms of trade between agriculture and industry, now strongly in favor of industry, could be made neutral or nearly so. This would generate strong support for the drive to boost productivity, rural incomes, and agricultural exports. Important new tax revenues might also be raised. The higher relative producer prices likely to result from those changes would not only spur a more rapid transformation of agricultural practices, but also remove the rationale for public subsidies of water, power, and fertilizer inputs, thereby reducing fiscal losses and discouraging waste.

Controls on distributors, marketers, and agro-processors would also need to be phased out so that their margins could be maintained at adequate levels. Private sector competition in importing and marketing is already being enhanced significantly by CONASUPO's gradual withdrawal from the distribution of sorghum and oil seeds. Eliminating CONASUPO's freight subsidies on the transport of agricultural commodities -- and with it pan-territorial wholesale pricing -- would allow distribution margins to vary more closely with true overhead costs, thus attracting larger numbers of competitors.

To the extent that real retail prices rose, selective food subsidies to the poorest would obviously be essential. The recently-instituted system of tortilla food stamps appears unlikely to reach those most in need, however, and may require significant modification. (See the discussion of social policies below). The considerations in sub-paragraph 101 (a) above regarding parastatal enterprises also apply to the major state-owned agricultural companies -- CONASUPO, Azucar S.A., and PRONASE.

As for public services to farmers, institutional progress has been made in reforming and decentralizing the operations of the Ministry of Agriculture. If continued, the reductions in excess staff, as well as improved incentives and training for technicians and specialists, will raise both the quality and the proportion of public services delivered directly to farmers. Because agricultural growth depends on appropriate incentives and adequate infrastructural development, a sound multi-year public investment program consisting of projects reflecting high economic returns is essential. Although for the irrigation projects, analysis generally follows sound economic criteria, in other areas, such as rural development, the evaluation and monitoring of investment appears to fall short of acceptable economic standards.

The operation of irrigation systems could be improved through better organization, increased water charges, and better financing at the district levels. Also, some sub-sectors, such as the sugar sector, require major reforms both in pricing policy and in industrial structure.

- (c) Strengthening the Financial System. Adapting production sectors to competition in a more open international environment will likewise test the capacity of the financial system to mobilize and allocate financial resources efficiently. By altering sectoral profitability dramatically from its secular pattern, opening the economy could initially degrade the quality of lenders' pre-liberalization portfolios. Moreover, a decade of turbulent economic conditions has taken its toll on Mexico's financial system. High and variable inflation, sometimes inflexible interest rate and exchange rate controls, and uncertainty have led to intermittent capital flight and disintermediation since 1972. Chronic fiscal deficits and declining external credit availability have led to drastic restrictions on the flow of credit to the private sector, which received little more than one-fifth of total credit flows in 1986. A selective review of some of the key issues in the sector is offered in the subparagraphs which follow.

The commercial banking sector faces increasingly serious portfolio problems. Internal bank systems for evaluating the viability of projects being financed and borrower performance after loan drawdown are generally weak. Declared arrears covered over 6% of the loan portfolio at the end of 1986, equivalent to roughly three-quarters of commercial bank capital and reserves. In reality, the problem may be even more serious. The volume of rolled over credits recorded as performing loans is considerably larger than the equity of some banks. Given the relatively low profitability of the majority of commercial banks (the average ratio of overall net profits to total assets was about 1.3% at the end of 1985), there is often little scope for flexibility in lending practices. Commercial banks have sought to minimize credit risk through high collateral (up to 200% of the borrowed amount) and compensatory balance requirements up to 20% of the loan face value).

Like the commercial banks, 20 or so official development banks have undergone gradual consolidation, merger, and restructuring since 1983, resulting in modest reductions of overhead and staffing. Nevertheless, most face serious problems of portfolio quality and internal management. They remain reliant on declining, but still substantial, credit subsidies (estimated at about 3.7% of GDP in 1986). A substantial share of their lendable resources is channeled into preferred sectors and activities as determined by government guidelines. Borrowers ineligible for preferred credit are obliged either to self-finance (difficult in a recession), draw from foreign assets (a growing trend in 1986 and early 1987), or borrow from the often costly, but less bureaucratic, free credit market.

Since nominal borrowing rates in the free credit market are high (around 150% annually as of April 1987), uncertainty about future inflation considerable, and the new tax system will gradually reduce the implicit subsidy for debt financing, borrowers remain reluctant to undertake medium or long-term debt obligations. The equity market is still in the early stages of development, and, although in the midst of a boom, is limited to a few well-known names. Venture capital funds, which could supplement high-cost loan resources, do not exist as yet. Generally, the market for longer-term financial instruments has shrunk significantly in recent years. As the lendable resources of all banks have declined, one potentially positive development is that the stock exchange, with 30 brokerage houses and four independent brokers, has begun to offer competing financial services, mainly short-term commercial paper. The absence of margin requirements and credit controls has enabled the brokerage houses to compete vigorously with the commercial banks.

As for possible remedies for these various problems, first, sustained and convincing progress toward restoring stable macroeconomic conditions will probably be a sine qua non for undertaking structural financial sector reform. Meanwhile, the continued development of the brokerage and commercial paper markets will bring welcome competition to the banking sector.

To improve savings mobilization, Mexico's experience demonstrates that maintaining interest rates for savers at or above yields on comparable foreign assets, adjusted for devaluation, would help sustain rising demand for local financial assets. (For example, the M5 money supply rose at an annual rate of more than 20 percent in late 1986 and early 1987, when the domestic foreign yield spread turned positive, after declining by 16% earlier in the year when it was negative.) Ceilings on the interest rates banks are allowed to pay on savings deposits, although currently non-binding, have also contributed to past problems of disintermediation and might, usefully, be abolished. Other practical structural steps -- like reductions in credit subsidies and the merger or closure of non-viable banks -- have been underway for several years and need to be continued.

There is also a need to introduce greater transparency into the scheme of subsidies through a national system of accounting, control, targetting, and budgetting, and through the establishment of timetables for financial intermediaries to achieve agreed targets for portfolio cost recovery. A counterpart of programs to clean up weak bank portfolios could be a reduction of official credit controls, so that banks would be more accountable for their future portfolio risk management.

Parallel efforts will be needed to deal with the weakened financial condition of many borrowers and to expand the use of lending instruments -- such as loans with interest capitalization features

-- more suited to an inflationary environment. Financially-weakened borrowers with healthy long-term prospects may need comprehensive restructuring packages, including debt/equity swaps, the lengthening of maturities on existing loans, fresh working capital, and resources for investment in new capacity or modernization of existing fixed assets. A Governmental study is now being launched to examine many of these issues. Early completion and follow-up action deserve high priority in the Government's overall strategy.

- (d) Improving Public Sector Management^{11/}. In addition to those public enterprise management issues raised in the discussion of industry (see page 64), improvements in budgetary and public investment processes would also be desirable. Some have already been introduced in the course of preparing the 1987 budget. For example, ministries and agencies are being asked to rank expenditure and investment proposals by priority, to compare planned versus executed expenditures over the preceding two fiscal years, to prepare two-year investment budgets, and to identify those projects which would become operational during the fiscal year if the proposed investments were approved unchanged. As experience is gained with these procedures, further progress might be made in clarifying the budgetary and planning roles of the core economic ministries, the sectoral ministries, and the line agencies, respectively; developing realistic and consistent basic macroeconomic parameters for government-wide use in project evaluation and financial programming; developing coherent sectoral strategies which incorporate key objectives; pinpointing measures to improve the efficiency of existing investments; promoting greater financial self-sufficiency in the executing agencies; strengthening program and project evaluation through financial and economic rate-of-return analysis; evaluating trade-offs between allocating more resources to start new projects, to complete on-going ones, or to maintain already completed projects; and monitoring how efficiently existing assets are being used and on-going projects executed.

Reassessing Policy Framework for Social and Employment Impact ^{12/}

102. The severe economic problems Mexico has faced since 1982 will, by the end of 1986, have resulted in cumulative declines in real per capita GDP of approximately 10%, and in real per capita consumption of perhaps 13%. These declines appear to have been unevenly distributed among the population, as indicated by data on wages and employment, per capita food consumption, the distribution of subsidies, and public spending on social sectors. Wage

^{11/} This section draws in part upon the August 1986 Public Sector Investment Review (Report No. 6371-ME), whose main observations are reviewed more extensively in Annex I.

^{12/} The issues discussed in summary fashion in this section are covered in greater depth in Chapter II.

earners, including the urban middle class and the poor, have been among the hardest-hit, having seen their remuneration as a share of GDP decline by about one-fifth in recent years. On the other hand, in rural areas where poverty is concentrated, the effects of the recession may have been attenuated by the somewhat stronger performance of agriculture (1.4 percent average annual growth during 1983-86, compared to -0.7% for the economy overall).

103. Whatever the uncertainties about the distributional consequences of the recession, the widespread incidence of extreme poverty means there is an urgent need for comprehensive policy action to: (i) alleviate in cost-effective ways the impact of the economic crisis on the poorest, and (ii) generate the additional jobs needed to absorb the more than 800 thousand people entering the labor force every year. By the nature of the complex social, political, ethnic, and physical factors involved in targetting and in employment generation, it should be obvious that these are no easy answers to these issues.

104. Subsidies for food and for basic public services such as water, electricity, and gas might be better targetted on the poorest via stamps, coupons, and special tariffs available only to consumers in well-defined low-income neighborhoods. In this regard, the recently established system of tortilla food stamps, with its heavy reliance on urban-based trade union and political groups for distribution, appears unlikely to reach the extreme poor who are mainly concentrated in rural areas. Thus, the distributional impact of the program has been blunted, while another incentive for rural migration to already crowded cities may be in the making. It might be preferable to distribute these stamps exclusively through food outlets located in deprived rural and fringe urban areas, such as those operated by CONASUPO (DICONSA and LICONSA), and make them available for a wider variety of nutritional foods important in the diets of the poor, such as beans, eggs, and bread.

105. In recent years, the IMSS-COPLAMAR health care program displayed a certain aptitude for reaching the poorest. But decentralization appears to have eroded the quality of services in some regions, meaning COPLAMAR may now be a less satisfactory vehicle for poverty-oriented services in health and nutrition. Much will depend on whether the states can be persuaded to increase their financial and political support for this program. Further consideration might also be given to the school lunch program, which has operated reasonably well in Mexico, and which has been successfully used in other Latin American countries to distribute food to students and other needy family members in combination with basic health programs.

106. Reserving a larger share of the national educational budget for pre-primary, primary, and secondary education would also be of major benefit to the poorest. Per student public expenditures for university education were ten times greater than those for elementary children in 1984, and consumed about one-fifth of the national educational budget. One of the many factors behind the rapid growth in public outlays for higher education is that tuition fees at the largest national university, UNAM, have declined to a small fraction of their real level in 1948, even though only one in six UNAM students comes from a family whose income is officially considered to

fall below the poverty line. ^{13/} Clearly, if some reasonable cost-sharing formula were to be reintroduced, students from lower-income strata would need ample assistance in the form of grants, subsidized loans, etc., to meet higher costs, but this would obviously be far less onerous for the state -- and more equitable -- than today's indiscriminate tuition subsidies.

107. Policies on housing, water, and sewerage might also be reviewed to see whether their poverty-alleviating effects could be enhanced. For example, approximately 86% of the subsidized credit for housing is presently channelled through the PFV-FOVI and payroll fund programs, which provide financing mainly for middle-income families. A shift of credit subsidies to low-income housing programs, such as FONHAPO, might be more equitable. If they were given as lump-sum grants rather than interest rate breaks, they would also be more transparent and monitorable than the present subsidy. Other measures successfully tried in Mexico and elsewhere in Latin America include programs to regularize ownership or tenancy in urban slum areas, so that the poor have sufficient security to undertake improvements in their living quarters; siting more connections to water and other basic public utility services within poor communities; and decentralizing housing assistance, such as the distribution of low-cost building materials, directly to the abodes of those poor engaged in recognized self-help housing projects.

108. With respect to job creation, some taxes and tax exemptions, such as the social security payroll tax and accelerated depreciation allowances, appear to penalize the use of labor inputs and/or grant excessively generous implicit subsidies to capital and to higher-income entrepreneurs. Studies are needed to see how the anti-employment biases of the tax system could be further reduced, while continuing to generate adequate and assured levels of revenue compatible with the stabilization program. (Aside from its effects on employment, the tax system may also have adverse redistributive effects. Currently high rates of tax evasion by firms and upper-income individuals are starting to be curtailed through a new Government campaign, initiated in 1987, to increase the number of tax audits and tighten internal tax administration. Over a period of time, this program could demonstrably increase the public perception of equity in tax enforcement.

109. Secondly, expanded training programs are urgently needed to ease the process of industrial and public enterprise restructuring, while equipping new labor market entrants with marketable skills. Thirdly, a cautious expansion of labor-intensive public works programs in low-income areas need not be unduly costly to the public treasury, but would primarily benefit the needy. Lastly, a system for monitoring key indicators of poverty, health, nutritional and educational trends, and the results being achieved in public social programs, would offer policymakers better guidance

^{13/} Recently, students at the Mexican National Autonomous University were asked to voluntarily consent to an increase in tuition fees on an ability to pay basis. However, it would now appear that the proposal has been abandoned.

than at present in assessing how well their efforts are succeeding, and which areas are in need of more intensive solutions. For example, the long delay in releasing the results of the 1983-84 National Survey of Household Income and Expenditures has deprived policymakers and the informed public of a valuable tool for determining which types of food are most nutritionally significant to low-income groups, and, thus, most suitable for targeting.

Medium Term Macro-economic Prospects

110. The implications of the major macro-economic policy options available to the authorities can be illustrated by three scenarios (see Table I.25). These scenarios should not be construed as attempts to predict the future, but rather as devices for highlighting quantitatively the effects of different policy mixes. All of the scenarios operate under common assumptions about the international environment, namely that world economic growth will remain sluggish (2.0-2.5% annually in the OECD countries), that after a temporary acceleration of prices in 1987, inflation will subside to a 4% annual level during the remainder of the decade, and that interest rates, as represented by the LIBOR, will remain stable at around their average levels of 1986. Oil export prices are projected to jump substantially in 1987 to about US\$15/barrel, and then rise more gradually in line with world inflation through 1990. Finally, it is assumed that no significant, "across-the-board" protectionist measures will be taken against Mexico's exports, although isolated incidences may continue. Needless to say, the rising uncertainties about the international outlook must be taken into account in the subsequent discussion of the scenarios.

111. Although each scenario entails differing assumptions about changes in a broad range of domestic policy tools, in their simplest terms, they reduce to a consideration of three alternatives: emphasizing accelerated trade liberalization (Scenario I), emphasizing a strong fiscal effort (Scenario II), or continuing the policy mix in effect during the early months of 1987 (Scenario III).

112. In general, the analysis concludes that the first two scenarios are viable, albeit with significant differences in outcome, while the third scenario probably is not. In the first scenario (see Table I.26), a telescoping of the three-year trade liberalization program into the second half of 1987, accompanied by a fiscal program going somewhat beyond the targets established in the stand-by agreed with the IMF, would likely produce the best trade-off between steadily recovering output growth (to 5-6% annually in 1989-90) and the path of inflation, which might slow appreciably. At the same time, the balance of payments, supported by an exchange rate close to the real level prevailing at the end of 1986, would remain strong. Despite a sharp rise in anticipated real import growth to nearly 10 percent annually, the trade (or resource) balance surplus would hold at around 5% of GDP through 1990, since non-oil exports would grow at similar rates. The spread between domestic and foreign interest rates adjusted for devaluation would continue to narrow, easing the rate of capital repatriation from the private sector. Lastly, external financing requirements would tend to decline from around US\$4 billion in 1987 to less than US\$1 billion in 1989-90.

Table 1.25: MEXICO: POLICY SCENARIOS

	Scenario I					Scenario II				Scenario III			
	1986	1987	1988	1989	1990	1987	1988	1989	1990	1987	1988	1989	1990
A.- Main Assumptions													
Oil Price (\$/b)	11.8	15.0	15.0	15.8	18.2	15.0	15.0	15.6	16.2	15.0	15.0	15.6	16.2
Oil Exports (mb/d)	1.2	1.3	1.4	1.5	1.5	1.3	1.4	1.5	1.5	1.3	1.4	1.5	1.5
World Inflation (%)	4.5	6.0	4.0	4.0	4.0	6.0	4.0	4.0	4.0	6.0	4.0	4.0	4.0
LIBOR	7.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Real Eff. Exch. Rate	166.4	165.6	165.8	165.8	165.8	162.5	149.5	149.5	149.5	148.1	128.7	113.9	99.9
Adj. Priv Sav/Inv (%)	16.2	16.5	20.3	21.5	22.1	14.1	18.2	19.5	20.2	12.4	12.2	13.1	13.6
B.- Main Results													
Inflation (year-end, %)	106.7	90-100	30-35	15-20	5-10	100-110	40-50	20-25	10-15	140+	250+	400+	500+
Real Int. Rate (%)	-6.1	-1.6	-0.7	-1.3	-1.0	-0.8	1.2	1.3	1.4	-5.3	-6.9	-6.0	-3.2
GDP growth (%)	-3.7	3.0	4.5	5.4	5.9	0.5	3.7	4.7	5.5	3.0	3.5	2.7	2.1
Overall Pub. Def./GDP (%)	16.1	12.9	5.2	2.6	1.7	13.3	6.2	3.4	2.5	17.8	23.8	29.8	32.7
Primary Bal/GDP (%)	1.3	4.7	4.3	4.2	3.8	5.9	4.7	4.2	3.8	3.2	1.9	0.9	0.3
Operational Def./GDP (%)	2.3	-0.4	0.4	0.0	0.2	-1.6	0.0	0.3	0.6	-0.6	-0.5	0.2	1.4
Non-oil Prim Def/GDP (%)	3.6	1.5	1.9	2.1	2.3	0.0	1.1	1.7	2.0	2.3	2.9	3.5	3.5
Real Exp (non-oil) growth (%)	24.5	14.3	8.0	8.0	8.0	9.6	6.9	8.0	8.0	5.1	0.9	1.8	1.3
Real Imports growth (%)	-18.0	14.5	8.1	7.8	8.4	12.2	11.9	7.9	7.9	17.4	6.1	4.1	8.0
For. Res. (mo. of imports)	3.6	6.3	6.6	6.6	6.6	6.4	6.5	6.5	6.5	2.9	2.0	2.0	2.0
Total Net Req. of funds (\$bil)	2.2	3.7	1.3	0.2	0.3	4.1	2.7	2.0	2.3	3.2	5.1	6.9	9.5
Ext Debt (Net of Res., \$ bil)	91.6	89.8	89.3	88.0	86.6	90.2	91.1	91.6	92.2	94.8	100.8	107.4	116.4
Debt Ss./Exports (%)	57.8	53.8	54.4	54.4	55.5	55.4	56.5	56.9	56.5	57.0	60.2	63.8	69.8
Int. Payments/Exports (%)	38.0	31.4	29.8	27.6	26.7	32.3	31.0	29.0	27.5	33.3	32.9	32.7	33.8

Table I.26: MEXICO: SCENARIO I

	1985	1986	1987	1988	1989	1990	1995
Production and Prices (annual percentage changes)							
Real GDP	2.7	-3.7	3.0	4.5	5.4	5.9	6.4
Real Consumption/cap	2.5	-7.5	-1.3	-1.6	1.4	3.3	4.3
Exports Tot (const prices)	-5.3	6.5	8.2	7.9	7.6	4.5	5.2
Exports Non-oil (")	-4.3	12.3	14.3	8.0	8.0	8.0	8.0
Imports Tot (")	14.8	-18.0	14.5	8.1	7.8	8.4	8.8
GDY deflator	54.4	85.5	100.5	61.3	24.6	12.6	5.0
Inflation (year-end)	63.7	105.7	95.4	33.2	16.5	8.9	5.0
Nominal Exch. Rate	53.2	137.9	100.5	55.1	19.8	8.3	1.0
Eff. Real Exch. Rate	-1.3	34.0	6.0	0.0	0.0	0.0	0.0
Dom Nom Int Rate (Av public)	58.3	93.1	92.2	32.3	14.9	7.9	4.2
Balance of payments (as percent of GDP at current prices)							
Resource Balance	5.0	4.2	5.3	5.2	5.3	4.9	2.6
Net Factor Ss	-4.7	-5.4	-5.3	-4.9	-4.6	-4.2	-2.8
Current Account	0.3	-1.3	-0.1	0.2	0.7	0.6	-0.1
Formal Fin. Capital	0.4	1.7	2.8	0.9	0.1	0.2	1.0
Reserve Accumulation	1.4	-0.6	-4.2	-1.2	-0.9	-1.0	-1.1
Public Sector (as percent of GDP at current prices)							
Total Revenues	22.7	21.6	25.0	25.0	25.2	24.8	23.2
(Non-oil Taxes)	9.0	9.1	10.4	10.5	10.5	10.5	10.5
(Domestic Oil)	4.1	4.9	4.9	4.9	4.9	4.9	4.9
(Non-tax Non-oil)	2.7	3.5	3.9	3.9	3.9	3.9	3.9
"Programm." Curr. Exp.	13.8	14.2	13.9	13.9	13.8	13.8	13.8
Domestic Interests	8.1	12.1	12.9	4.7	2.3	1.3	0.7
External Interests	4.3	5.3	4.7	4.7	4.4	4.0	2.5
Public Savings	-3.6	-10.0	-6.5	1.7	4.6	5.7	6.1
Capital Expenditures	6.3	6.1	6.4	6.9	7.2	7.4	7.5
Deficit	9.9	16.1	12.9	5.2	2.6	1.7	1.4
Increase Liquid Assets	1.1	1.0	1.2	1.3	1.3	1.3	1.3
Dom Financing	8.2	16.0	10.5	5.6	3.7	2.8	2.0
External Financing	2.8	1.1	3.6	0.9	0.1	0.2	0.7
Non-oil Prim. Deficit	5.7	3.6	1.5	1.9	2.1	2.3	2.4
Operational Deficit	1.0	2.3	-0.4	0.4	0.0	0.2	0.5
Savings and Investment (as percent of GDP at current prices)							
Total Fund Requirements	19.2	18.6	20.3	23.0	24.1	24.7	25.8
Private Investment	11.8	11.5	12.7	14.8	15.6	16.0	17.0
Public Investment	6.3	6.1	6.4	6.9	7.2	7.4	7.5
Incr Pub Sect Liq Assets	1.1	1.0	1.2	1.3	1.3	1.3	1.3
Total Savings	19.2	18.6	20.3	23.0	24.1	24.7	25.8
Private	18.2	19.7	20.3	19.2	18.9	18.8	19.1
Public	-3.6	-10.0	-6.5	1.7	4.6	5.7	6.1
External	-0.3	1.3	0.1	-0.2	-0.7	-0.6	0.1
Inflationary Credit	4.9	7.6	6.5	2.3	1.2	0.8	0.4
Memo:							
Priv Sav/Priv Income	20.7	21.9	23.0	22.7	22.7	22.7	22.7
Adj. Priv Sav Prop	16.9	16.2	16.5	20.3	21.5	22.1	22.3
External Financing, External Debt and Foreign Reserves (\$billion)							
Net External Financing	0.7	2.2	3.7	1.3	0.2	0.3	2.8
Amortizations	4.8	4.0	5.9	7.2	8.8	10.8	11.7
Gross External Financing	5.5	6.2	9.6	8.5	9.0	11.1	14.5
Interest payments	9.9	8.3	8.3	8.7	9.1	9.3	10.8
Debt Service (DS)	14.7	12.4	14.2	15.9	17.9	20.0	22.6
External Debt	94.2	96.4	100.1	101.3	101.5	101.8	109.6
Foreign Reserves	4.0	4.8	10.3	12.0	13.5	15.2	28.1
Ext Debt-For Res ("Net Debt")	90.2	91.6	89.8	89.3	88.0	86.6	81.6
Main Creditworthiness ratios (%)							
Interests/Exports	35.9	39.0	31.4	29.8	27.6	25.7	18.4
DS/Exports	53.0	57.8	53.8	54.4	54.4	55.5	38.4
Net Debt/Exports	326.1	427.6	339.5	304.3	267.7	239.9	138.8
Interests/GDP	5.6	6.6	6.3	6.2	5.8	5.4	3.8
DS/GDP	8.3	9.7	10.8	11.2	11.5	11.7	7.9
Net Debt/GDP	50.8	72.0	68.4	62.8	56.6	50.5	28.5

113. The second scenario (see Table I.27) assumes an even deeper fiscal adjustment (an improvement in the non-oil primary fiscal balance of about 3-4% of GDP more than is foreseen in the IMF stand-by), but a trade liberalization program in line with current plans (i.e., removal of the quotas covering an additional 9% of domestic final demand, the elimination of import reference prices, and the second-stage reduction of the tariff ceiling to 35% during 1987). The additional fiscal effort might be insufficient to offset the monetization of foreign reserves stemming from private sector repatriation of capital and the current account surplus, now accumulating jointly at an annual rate of 8-9% of GDP. So some further adjustment would probably take place through an appreciation of the real exchange rate (10-15% in 1987). The combined effect of a resultant slowdown in non-oil export growth, and of more restrictive fiscal policies might mean a slower economic recovery vis-a-vis the first scenario (3-4% vs. 4-5% per annum during the 1987-1990 period). And because of the heavier reliance on restrictive demand management policies to reduce inflation, as opposed to policies aimed at against inflation might be somewhat slower. As in the first scenario, the balance of payments would remain strong, although the reduction in net external funding requirements would be more gradual, declining to perhaps US\$2 billion annually in 1989-90.

114. Finally, in Scenario III (see Table I.28), it is assumed the fiscal effort would be slightly below the rate of improvement in the non-oil primary balance targetted in the current stand-by (by about 1% of GDP), while the trade liberalization program would be in line with current plans (see Scenario II above). Output growth might pick up temporarily to about a 3% rate in 1987, in line with Scenario I and higher than in Scenario II. This growth would be supported, not by higher export growth, but mainly by higher consumption. This mismatch between exchange rate, fiscal, monetary, and trade policies would lead to a continued build-up of liquidity and of inflationary pressures to unsustainable levels. It would be difficult in this environment to maintain the present real exchange rate level, since this would imply a nearly unending upward spiral of the nominal rate of depreciation, succeeded by more inflation. Severe balance of payments difficulties and, by the end of the decade, a marked slowdown in growth could be expected. External financing needs, which are projected to be highest in the third scenario, would be unlikely to be met, necessitating early corrective policy adjustments.

115. There is no suggestion that any of these scenarios is more likely than any other. (Since the Government is now considering certain policy adjustments, Scenario III has no particular significance). Nevertheless, their presentation is intended to highlight the critical variables and policy alternatives in the current situation, and to underline the positive effects of prompt additional action.

Table I.27: MEXICO: SCENARIO II

	1985	1986	1987	1988	1989	1990	1995
Production and Prices (annual percentage changes)							
Real GDP	2.7	-3.7	0.5	3.7	4.7	5.5	6.0
Real Consumption/cap	2.5	-7.5	-2.8	-2.3	0.7	3.0	3.9
Exports Tot (const prices)	-5.3	6.5	5.7	7.3	7.6	4.4	5.1
Exports Non-oil (")	-4.3	12.3	9.6	6.9	8.0	8.0	8.0
Imports Tot (")	14.8	-18.0	12.2	11.9	7.9	7.9	8.3
GDY deflator	54.4	85.5	106.2	73.2	33.3	18.0	5.2
Inflation (year-end)	63.7	105.7	106.8	45.0	22.5	13.7	5.2
Nominal Exch. Rate	53.2	137.9	89.7	63.2	28.1	13.5	1.2
Eff. Real Exch. Rate	-1.3	34.0	-2.5	-2.0	0.0	0.0	0.0
Dom Nom Int Rate (Av public)	58.3	93.1	105.2	46.8	24.0	15.3	6.3
Balance of payments (as percent of GDP at current prices)							
Resource Balance	5.0	4.2	4.7	3.9	4.0	3.7	1.9
Net Factor Sa	-4.7	-5.4	-5.0	-4.6	-4.4	-4.2	-3.1
Current Account	0.3	-1.3	-0.3	-0.7	-0.4	-0.5	-1.1
Formal Fin. Capital	0.4	1.7	2.9	1.8	1.2	1.2	1.9
Reserve Accumulation	1.4	-0.6	-4.0	-1.2	-0.9	-0.9	-1.0
Public Sector (as percent of GDP at current prices)							
Total Revenue	22.7	21.6	25.0	24.9	25.1	24.8	23.3
(Non-oil Taxes)	9.0	9.1	10.5	10.5	10.5	10.5	10.5
(Domestic Oil)	4.1	4.9	4.9	4.9	4.9	4.9	4.9
(Non-tax Non-oil)	2.7	3.5	4.2	4.2	4.2	4.2	4.2
"Programm." Curr. Exp.	13.8	14.2	13.0	13.4	13.5	13.6	14.1
Domestic Interests	8.1	12.1	14.7	6.5	3.3	2.1	1.0
External Interests	4.3	5.3	4.5	4.4	4.2	3.9	2.9
Public Savings	-3.6	-10.0	-7.1	0.7	4.0	5.1	5.4
Capital Expenditures	6.3	6.1	6.2	6.9	7.4	7.6	8.6
Deficit	9.9	16.1	13.3	6.2	3.4	2.5	3.2
Increase Liquid Assets	1.1	1.0	1.1	1.2	1.2	1.2	1.2
Dom Financing	8.2	16.0	10.7	5.6	3.4	2.5	2.8
External Financing	2.8	1.1	3.7	1.8	1.2	1.3	1.7
Non-oil Prim. Deficit	5.7	3.6	0.0	1.1	1.7	2.0	3.5
Operational Deficit	1.0	2.3	-1.6	0.0	0.3	0.6	2.4
Savings and Investment (as percent of GDP at current prices)							
Total Fund Requirements	19.2	18.6	19.5	22.5	23.5	24.0	25.6
Private Investment	11.8	11.5	12.2	14.4	14.9	15.2	15.8
Public Investment	6.3	6.1	6.2	6.9	7.4	7.6	8.6
Incr Pub Sect Liq Assets	1.1	1.0	1.1	1.2	1.2	1.2	1.2
Total Savings	19.2	18.6	19.5	22.5	23.5	24.0	25.6
Private	18.2	19.7	19.0	18.0	17.5	17.5	18.6
Public	-3.6	-10.0	-7.1	0.7	4.0	5.1	5.4
External	-0.3	1.3	0.3	0.7	0.4	0.5	1.1
Inflationary Credit	4.9	7.6	7.3	3.1	1.6	1.0	0.4
Memo:							
Priv Sav/Priv Income	20.7	21.9	21.5	21.2	21.0	21.0	22.0
Adj. Priv Sav Prop	16.9	16.2	14.1	18.2	19.5	20.2	21.7
External Financing, External Debt and Foreign Reserves (\$billion)							
Net External Financing	0.7	2.2	4.1	2.7	2.0	2.3	5.8
Amortizations	4.8	4.0	5.9	7.2	8.8	10.8	12.8
Gross External Financing	5.5	6.2	10.0	9.9	10.8	13.0	18.6
Interest payments	9.9	8.3	8.3	8.8	9.2	9.6	12.1
Debt Service (DS)	14.7	12.4	14.2	16.0	18.0	20.3	24.9
External Debt	94.2	96.4	100.5	103.2	105.1	107.4	127.9
Foreign Reserves	4.0	4.8	10.3	12.0	13.5	15.2	27.4
Ext Debt-For Res ("Net Debt")	90.2	91.6	90.2	91.1	91.6	92.2	100.5
Main Creditworthiness ratios (%)							
Interests/Exports	35.9	39.0	32.3	31.0	29.0	27.5	21.5
DS/Exports	53.0	57.8	55.4	56.5	56.9	58.5	44.1
Net Debt/Exports	326.1	427.6	351.0	322.2	289.1	265.1	178.3
Interests/GDP	5.6	6.6	6.0	5.8	5.6	5.3	4.1
DS/GDP	8.3	9.7	10.2	10.5	10.9	11.2	8.4
Net Debt/GDP	50.8	72.0	64.8	59.8	55.4	50.7	33.8

Table I.2B: MEXICO: SCENARIO III

	1985	1986	1987	1988	1989	1990.....	1995*
Production and Prices (annual percentage changes)							
Real GDP	2.7	-3.7	3.0	3.5	2.7	2.1	
Real Consumption/cap	2.5	-7.5	2.0	0.7	-0.4	0.7	
Exports Tot (const prices)	-5.3	6.5	3.4	4.1	4.4	0.7	
Exports Non-oil (")	-4.3	12.3	5.1	0.9	1.8	1.3	
Imports Tot (")	14.8	-18.0	17.4	6.1	4.1	8.0	
GDY deflator	54.4	85.5	126.3	202.2	339.9	483.8	
Inflation (year-end)	63.7	105.7	148.9	266.9	427.5	546.2	
Nominal Exch. Rate	53.2	137.9	102.1	152.5	274.6	392.2	
Eff. Real Exch. Rate	-1.3	34.0	-5.3	-13.1	-11.5	-12.3	
Dom Nom Int Rate (Av public)	38.3	93.1	135.8	241.8	395.9	525.5	
Balance of payments (as percent of GDP at current prices)							
Resource Balance	5.0	4.2	3.3	2.4	2.0	1.1	
Net Factor Ss	-4.7	-5.4	-4.7	-4.0	-3.6	-3.2	
Current Account	0.3	-1.3	-1.4	-1.6	-1.6	-2.1	
Formal Fin. Capital	0.4	1.7	2.1	2.8	3.2	3.6	
Reserve Accumulation	1.4	-0.6	0.0	0.5	-0.1	-0.2	
Public Sector (as percent of GDP at current prices)							
Total Revenues	22.7	21.6	23.4	22.7	22.3	21.7	
(Non-oil Taxes)	9.0	9.1	10.2	10.2	10.2	10.2	
(Domestic Oil)	4.1	4.9	4.9	4.9	4.9	4.9	
(Non-tax Non-oil)	2.7	3.5	3.5	3.5	3.5	3.5	
"Programm." Curr. Exp.	13.8	14.2	13.8	13.9	14.0	14.0	
Domestic Interests	8.1	12.1	16.8	21.9	27.2	30.1	
External Interests	4.3	5.3	4.2	3.7	3.2	2.9	
Public Savings	-3.6	-10.0	-11.4	-16.9	-22.2	-25.3	
Capital Expenditures	6.3	6.1	6.4	6.9	7.4	7.4	
Deficit	9.9	16.1	17.8	23.8	29.6	32.7	
Increase Liquid Assets	1.1	1.0	1.0	0.9	0.9	0.9	
Dom Financing	8.2	16.0	16.0	21.9	27.3	30.0	
External Financing	2.8	1.1	2.9	2.8	3.2	3.6	
Non-oil Prim. Deficit	5.7	3.6	2.3	2.9	3.5	3.5	
Operational Deficit	1.0	2.3	-0.6	-0.5	0.2	1.4	
Savings and Investment (as percent of GDP at current prices)							
Total Fund Requirements	19.2	18.6	18.5	19.0	19.5	19.5	
Private Investment	11.8	11.5	11.1	11.2	11.2	11.2	
Public Investment	6.3	6.1	6.4	6.9	7.4	7.4	
Incr Pub Sect Liq Assetts	1.1	1.0	1.0	0.9	0.9	0.9	
Total Savings	19.2	18.6	18.5	19.0	19.5	19.5	
Private	18.2	19.7	18.4	16.9	13.6	9.9	
Public	-3.6	-10.0	-11.4	-16.9	-22.2	-25.3	
External	-0.3	1.3	1.4	1.6	1.6	2.1	
Inflationary Credit	4.9	7.6	10.1	17.3	26.5	32.8	
Memo:							
Priv Sav/Priv Income	20.7	21.9	20.5	19.0	16.0	12.0	
Adj. Priv Sav Prop	16.9	16.2	12.4	12.2	13.1	13.6	
External Financing, External Debt and Foreign Reserves (\$billion)							
Net External Financing	0.7	2.2	3.2	5.1	6.9	9.5	
Amortizations	4.8	4.0	5.9	7.2	8.8	10.8	
Gross External Financing	5.5	6.2	9.1	12.3	15.7	20.3	
Interest payments	9.9	8.3	8.3	8.7	9.3	10.1	
Debt Service (DS)	14.7	12.4	14.2	15.9	18.2	20.9	
External Debt	94.2	96.4	99.5	104.6	111.5	121.0	
Foreign Reserves	4.0	4.8	4.8	3.8	4.1	4.6	
Ext Debt-For Res ("Net Debt")	90.2	91.6	94.8	100.8	107.4	116.4	
Main Creditworthiness ratios (%)							
Interests/Exports	35.9	39.0	33.3	32.9	32.7	33.8	
DS/Exports	53.0	57.8	57.0	60.2	63.8	69.8	
Net Debt/Exports	326.1	427.6	379.5	381.5	377.3	389.7	
Interests/GDP	5.6	6.6	5.6	4.8	4.2	3.8	
DS/GDP	8.3	9.7	9.6	8.7	8.3	7.8	
Net Debt/GDP	50.8	72.0	64.2	55.3	49.0	43.8	

* Policies in this scenario cannot be maintained, ie, they will likely be changed before 1990, which is why no figures are shown after 19

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CHAPTER II

THE SOCIAL COST OF THE CRISIS: ISSUES AND RECOMMENDATIONS

1. The severe economic problems Mexico has experienced resulted in a drop of about 10% in real per capita GDP, and of 15% in real consumption per capita between 1980 and 1986 (Table II.1). These declines appear to have been unevenly distributed among the population, as indicated by data on wages and incomes, employment, consumption of food, subsidies, and social spending. Wage earners, among which some of the urban poor and the vast majority of middle-income people are included, have lost about 20% of their share in GDP. And unskilled workers have suffered a larger drop in employment than have skilled workers. On the other hand, in rural areas, where relative poverty is most serious, average output growth may have protected, or even improved, the relative income position of farm laborers, although some deterioration in absolute terms may have occurred.

2. In this chapter, Section I shows the extent of the social cost of the crisis and Section II presents several recommendations for dealing with the issues of employment generation for the poorest, and improvements in targetting extreme poverty.

I. The Extent of the Social Cost

3. This section examines the limited evidence available on wage and non-wage incomes, employment and unemployment, subsidies, consumption and nutrition, and social spending to assess the extent of the social cost of the crisis, and who may have been most affected.

A. Wage and Non-Wage Incomes

4. Wages have sharply declined since 1982. Total compensation in manufacturing which includes wages and salaries, social security contributions and other money benefits, declined by 27.4% between 1982 and 1985 (Table II.2) and continued declining by about 7% in real terms during 1986. Total compensation in construction, as measured by average labor cost in this industry, declined by 31% between 1982 and 1985 with an additional decline of more than 10% in the first quarter of 1986. Minimum wages, which are adhered to in the public sector and in some firms in the private sector in urban areas, declined by 25% between 1982 and 1985 and by an additional 4% in the first semester of 1986. Even old-age pensions suffered a substantial real decline. Pensions declined by 18% relative to the minimum wage between 1981-82 and 1984 (Table II.3). Although no data exist for the informal sector, it is most likely that similar declines in income may have occurred as the number of people in this sector increased rapidly in these years. According to the household surveys, the proportion of self-employed and unpaid family members, for instance, increased from 14.2% of the total employed in the second quarter of 1982 to 19.6% in the same quarter of 1985.

Table II.1: MEXICO: NATIONAL ACCOUNTS, WAGES AND POPULATION
(annual percentage changes)

	1975-80	1981	1982	1983	1984	1985	1986	1986/ 1980 (%)
GDP	6.6	8.0	-0.5	-5.3	3.7	2.7	-3.8	4.3
GNP	6.4	6.7	-1.5	-4.4	3.3	3.4	-3.6	3.5
Consumption	6.3	7.6	1.2	-6.8	3.0	2.0	-5.9	0.3
Share of Labor in GDP (in percentage points)	-0.2 (36.0)	2.8 (37.0)	-2.7 (36.0)	-19.6 (29.0)	-3.4 (28.0)			
Wages								
Minimum ^{a/}	-0.0	1.6	-9.6	-18.0	-7.4	-1.1	-8.0	-36.5
Manufacturing ^{b/}	0.6	3.5	1.4	-23.1	-6.5	0.1	-6.6	-29.4
Construction ^{c/}	2.5	3.3	-2.0	-21.8	-7.6	-4.3		-30.0 ^{d/}
Employment	5.1	6.6	-0.9	-1.5	2.7	2.5	-1.5	8.0
Labor Force	3.4	3.5	3.6	3.6	3.6	3.6	3.6	23.5
<u>GDP per capita</u>								-10.0
<u>GNP per capita</u>								-10.6
<u>Cons. per capita</u>								-14.5

() Absolute value of share of labor in GDP.

^{a/} Weighted average of the different minimum wages.

^{b/} Includes wages and salaries

^{c/} Refers to the average labor cost in construction.

^{d/} Until June 1986.

^{e/} Between 1980 and 1985.

Source: National Accounts are from SPP/INEGI (National Accounts) and Bank staff estimates for 1986. Data for these calculations are in Appendix, Table 1.1.1 and Table 2.2.2. Wages are from Banco de Mexico. Employment is from Table II.5.

**Table II.2: MEXICO: NOMINAL AND REAL GROWTH IN WAGES, 1975-1986
(1978=100)**

	<u>Minimum wages^{a/}</u>		<u>Mean wages in Manufacturing</u>		<u>Mean Income in Manufacturing^{b/}</u>		<u>Mean Construction Wage^{c/}</u>	
	<u>Nominal</u>	<u>Real</u>	<u>Nominal</u>	<u>Real</u>	<u>Nominal</u>	<u>Real</u>	<u>Nominal</u>	<u>Real</u>
1975	53.4	93.7	51.8	90.9	52.9	92.8	48.8	85.6
1976	68.8	103.9	66.7	100.6	66.3	99.7	62.7	95.0
1977	88.1	103.6	87.5	102.6	86.8	101.8	85.1	100.0
1978	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.8
1979	115.7	98.0	116.3	98.3	116.5	98.3	119.1	110.8
1980	135.9	91.3	140.6	94.0	142.9	95.3	143.7	96.2
1981	176.9	92.8	182.0	95.1	189.3	98.6	190.0	99.4
1982	248.4	83.9	292.5	97.4	303.2	100.0	295.6	97.4
1983	417.1	68.8	433.4	70.8	473.3	76.9	460.5	76.2
1984	643.3	63.7	694.7	67.8	734.4	71.9	710.3	70.4
1985	1001.0	63.0	1112.3	68.9	1172.3	72.6	1070.6	67.4
1986								
January	1424.8	65.6					1479.6	68.1
February	1424.8	62.8					1491.8	65.7
March	1424.8	60.0					1502.6	63.3
April	1424.8	57.0					1502.6	60.7
May	1424.8	54.0						
June	1782.0	63.4 ^{a/}						

^{a/} Weighted average of the different minimum wages.

^{b/} Includes wages and salaries and other money benefits.

^{c/} Refers to the average labor cost in construction.

^{d/} Includes the 25.1% wage increase of June.

Source: Banco de Mexico.

Table II.3: MEXICO: GROWTH OF PENSIONS AND MINIMUM WAGE
(1978=100)

	Average Pension (Nominal)	Minimum Wage (Nominal)	Ratio of Pension to Minimum Wage
1978	100.0	100.0	1.00
1979	133.9	115.7	1.16
1980	180.6	135.9	1.33
1981	190.6	176.9	1.08
1982	271.1	248.4	1.09
1983	395.9	417.1	0.95
1984	575.9	643.3	0.89

Source: Pensions are from IMSS. Minimum wages, from Banco de Mexico.

5. Non-wage income went up by 6% between 1982 and 1984 (Table II.4), the latest year for which data was available. This increase may have benefitted primarily higher-income individuals and profit earners, with the exception perhaps of some low-income self-employed workers in agriculture. Although no data exist on incomes by farm size, small and large farmers alike may have benefitted from the higher crop prices supported by the government and the favorable exchange rate. By contrast, in manufacturing, where the informal sector is smaller than in agriculture and commerce, larger firms probably benefitted most. This may have resulted from the increased protection given to industry (import controls were intensified in 1982-1983 resulting in higher domestic prices); depreciation allowances approved to relieve the financial pressure on firms; and the deductions for tax purposes of all interest payments. The monthly manufacturing surveys show that while distributed earnings were 0.6% of the total outlays in 1982, they were 1.9% in 1983, the worst year of the crisis. Also, while the wage bill in manufacturing in the National Accounts dropped by 31%, non-wage income declined by only one percent from 1982 to 1983 (Table II.4).

B. Employment and Unemployment

6. Data from the National Accounts indicate that total employment stagnated from 1981 to 1986, while the labor force was growing at 3.6% per annum. Estimates of the size of the total labor force are only approximate, since data on nationwide participation rates are incomplete

Table II.4: MEXICO: WAGE BILL (W) AND NON-WAGE INCOME (NW), 1981-1984
(billions of 1978 Mexican pesos)

		1981	1982	1983	1984	% Change 1982-84
Agriculture, Livestock and Fishery	W	65,873	56,725	45,737	44,802	-32.0
	NW	170,933	158,636	163,068	185,996	8.8
Mining	W	29,516	28,687	22,257	21,006	-28.6
	NW	45,642	93,973	182,162	134,248	194.1
Manufacturing	W	235,376	225,400	159,837	153,688	-34.7
	NW	310,298	304,536	299,936	332,752	7.3
Construction	W	137,479	128,071	78,416	75,722	-44.9
	NW	74,638	63,861	63,182	63,875	-14.4
Electricity	W	17,242	18,210	15,077	13,598	-21.1
	NW	9,915	8,326	15,292	14,943	50.7
Commerce, Restaurants and Hotels	W	132,275	125,418	95,949	91,557	-30.8
	NW	488,384	479,590	431,744	493,551	1.1
Transport, Storage and Communication	W	77,414	77,094	60,269	57,567	-25.7
	NW	109,522	101,039	111,773	122,661	11.9
Financial Services, Insurance and Real Estate	W	50,687	51,995	40,619	40,775	-19.6
	NW	163,513	158,375	134,042	118,247	-27.7
Communal, Social and Personal Services	W	403,127	399,923	287,272	285,645	-29.2
	NW	170,482	177,125	165,466	171,079	0.4
Total	W	1,148,989	1,111,524	805,433	784,360	-31.7
	NW	1,543,328	1,545,465	1,566,685	1,637,353	6.1

Note: W: means wage bill.

NW: means non-wage income or what is called the (net) surplus of exploitation in the national accounts.

Source: SPP/INEGI, Sistema de Cuentas Nacionales de Mexico, 1980-1982 and 1982-1984.

for some years and the employment data in the national accounts are based on fixed base-year coefficients. Nonetheless, on the basis of what is admittedly a highly uncertain data base, it would appear that the employment gap measured as the difference between the number of people considered employed in formal labor markets and the size of the economically active labor force, may have increased from about 3% of the labor force in 1981 to 19% in 1986 (Table II.5). Of course, an unknown, but important number of workers not in formal markets are, nonetheless, productively employed, either in the informal wage market or abroad. But the sheer dimensions of the employment gap, more than four times the official unemployment rate and numbering nearly 5 million workers, does convey a rough idea of the potential magnitude of the problem of unemployment and underemployment Mexico faces.

7. One explanation for the wide divergence in unemployment estimates is that, in household surveys, a person is considered employed, even if he or she worked only one hour during the reference week. This, in addition to the most commonly cited reason (i.e., migration to the US) may explain why open unemployment remained relatively low in Mexico City, Monterrey and Guadalajara, even during 1983. The rates of 6% in Mexico City, 7% in Monterrey and 9% in Guadalajara for that year compared favorably with those of other Latin American cities, even when corrected in the official statistics for so-called "hidden" unemployment (Table II.6). Recorded unemployment has been relatively low (under 5%) in these cities after 1984. Since the unemployment rate has not risen during the recession, there is some discussion as to the reliability of these estimates. What is clear is that the main problem is not open unemployment but underemployment.

8. The stagnation of employment did not affect every sector the same way. On balance, the relatively unskilled were more severely affected (see Table II.5). Thus, for instance, while construction lost about 500 thousand jobs (only partially compensated by an increase of 200 thousand jobs in agriculture), public sector employment, composed of relatively more skilled people, increased by over 800 thousand jobs between 1981 and 1985 (no more recent data for the public sector exist). With this increase, the share of public sector employment in total Mexican employment went up to 21% in 1985, or an increase of six percentage points over 1978.

9. After improving somewhat in 1985, the employment situation started to deteriorate again in 1986, as the number of the formally employed declined by 2%. The situation of the unskilled may have experienced a particularly sharp setback, as exemplified by construction, where employment declined by 9%. Finally, a growing percentage of temporary workers appears to be filling private sector jobs.

C. Subsidies

10. While non-food subsidies declined, food subsidies sharply increased from 1982 to 1984 (Table II.8). The decline in non-food subsidies was made possible by substantial real increases in public tariffs, whereas the increase in food subsidies offset higher prices paid to farmers

for their basic food crops and, thereby cushioned the impact of lower output and employment, mainly in urban areas. Higher food prices have adversely affected many rural wage earners and those poor farmers who were net consumers of basic food staples as maize and beans. Nonetheless, no recent data exist on how many people have been affected.

11. In 1985 and the first semester of 1986, as new austerity measures were needed, the Mexican government reduced the amount of food subsidies substantially (Table II.8). In April 1986, CONASUPO entered into an agreement whereby the federal government assumed 62% of CONASUPO's accumulated debt in return for major structural changes in CONASUPO. These changes included among others, the dismantling of price subsidies; the reduction of CONASUPO's intervention in the market of basic grains, beans, and oil seeds to that necessary for enforcing price regulations; and the promotion of private sector purchasing of basic products. To replace the general food subsidies, the Government instituted a system of food stamps ("tortibonos") that allows recipients to buy a fixed amount of tortillas (approximately 2-3 kg. per day per family) for 40% of the market price.

D. Consumption and Nutrition

12. Although data on food consumption and nutritional status of the population are relatively scarce, available evidence points to the conclusion that the levels of per capita consumption and nutrition, especially of the urban and rural poor, declined severely from 1982 to 1986. Even during 1982-1984, when food subsidies increased, real food prices (except for tortillas) declined by less than the real minimum wage (Table II.8). In 1985 and 1986, the situation most probably worsened. In fact, the National Consumer Institute estimates that the cost of a basic diet for a family of four adult-equivalents rose from 44% to 59% of the minimum wage from December 1983 to December 1985.

E. Social Spending

13. The Government has sought to alleviate the impact of recession and adjustment on the economically disadvantaged. For example, while overall public spending on non-financial goods and services was contracting sharply in real terms during the 1983-85 period, the budgetary share of spending on education, health, and social security benefits was rising from 22.7% to 25.3%. Despite the devastation of an earthquake which struck hard at the health and educational infrastructure of Mexico City, the number of public hospitals nationwide rose by 70, and the number of subsidized school lunches by 34% to over 200 million annually. Piped water and sanitation services were extended to an additional 8-10 million inhabitants, while the rate of new housing construction was raised by 50%.

14. Still, as in many countries facing severe fiscal constraints, public sector social spending at the national level has declined as a proportion of GDP since 1982. Expenditures on health and social security declined from 2% of GDP in 1982 to 1.8% in 1984; expenditures on education

Table II.5: MEXICO: EMPLOYMENT BY ECONOMIC SECTOR AND BY PRIVATE AND PUBLIC SECTOR
(in thousands of workers)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^{a/}
1. By Economic Sector									
Agriculture, forestry and fisheries	4,891	4,737	4,901	5,189	5,035	5,245	5,342	5,428	5,379
Mining	206	220	240	263	270	267	271	270	260
Manufacturing	2,133	2,291	2,417	2,543	2,485	2,310	2,361	2,436	2,358
Construction	1,321	1,497	1,687	1,881	1,785	1,421	1,468	1,510	1,379
Power	55	58	63	66	66	65	68	72	75
Commerce, restaurants, hotel	2,368	2,534	2,637	2,762	2,701	2,705	2,744	2,769	2,688
Transportation, warehousing, communics.	712	780	907	988	993	993	1,023	1,043	1,025
Financial services, insurance, real estate	327	351	382	425	454	466	480	495	501
Community, social and personal services	4,831	5,208	5,561	5,927	6,073	6,101	6,342	6,290	6,234
2. By Private and Public Sectors									
Private Sector	14,196	14,775	15,591	16,541	16,154	15,567	15,872	15,966	n.a.
Public Sector	2,648	2,901	3,204	3,502	3,709	4,006	4,225	4,347	n.a.
3. Total Employment	16,844	17,676	18,795	20,043	19,863	19,573	20,097	20,313	19,899
Memorandum Items:									
Labor Force			20,000	20,700	21,400	22,200	23,000	23,800	24,700
Employment Gap (%) ^{b/}			6.0	3.4	7.0	11.7	12.6	14.7	19.4

^{a/} Preliminary

^{b/} $1 - \frac{\text{Total Employment}}{\text{Labor Force}} \times 100.$

Source: SPP/INEGI, National Accounts, 1978 to 1986 and SHCP, Mexico: Development of Financing Strategy, 1986.

Table II.6: MEXICO: UNEMPLOYMENT RATES
(as a percentage of labor force)

		Mexico			Guadalajara			Monterey		
		Open	"Hidden" ^{a/}	Total	Open	"Hidden"	Total	Open	"Hidden"	Total
1981	2nd qtr.	3.8	2.0	5.8	5.8	2.3	8.1	4.8	0.8	5.6
	4th qtr.	3.6	1.3	4.9	5.5	4.0	9.5	3.4	0.8	4.2
1982	2nd qtr.	3.9	1.5	5.4	5.2	3.1	8.3	4.7	0.8	5.5
	4th qtr.	4.1	1.7	5.8	5.1	2.6	7.7	4.5	1.5	6.0
1983	2nd qtr.	5.5	2.2	7.7	8.1	5.1	13.2	9.8	3.8	13.6
	4th qtr.	6.3	3.5	9.8	6.7	4.9	12.6	9.1	3.2	12.3
1984	2nd qtr.	5.3	2.5	7.8	5.8	3.7	9.5	7.0	2.7	9.7
	4th qtr.	6.2	3.7	9.9	5.7	2.6	8.3	6.2	3.4	9.6
1985	2nd qtr.	4.3	1.5	5.8	3.5	1.1	4.6	5.1	1.5	6.6
	4th qtr.	4.4	2.7	7.1	2.4	6.5	8.9	4.0	1.6	5.6
1986	January	4.6	1.8	6.4	2.5	9.0	11.5	5.7	1.0	6.7
	February	4.8	1.6	6.4	2.7	5.1	7.8	4.8	1.4	6.2
	March	5.2	1.6	6.8	2.6	3.9	6.5	4.5	0.9	6.4
	April	4.6	1.6	6.2	2.8	5.8	8.6	5.0	1.3	6.3

^{a/} "Hidden" unemployment is defined in the official statistics as the inactives not actively looking for work but willing to work if opportunities were available, over the labor force.

Source: SPP/INEGI, Household Surveys.

Table II.7: MEXICO: EMPLOYMENT IN SAMPLE OF MANUFACTURING FIRMS, ASSEMBLY INDUSTRY, AND CONSTRUCTION FIRMS, 1981-MARCH 1986^{a/}

	<u>Sample of Manufacturing Firms</u>		<u>Assembly Industry</u>		<u>Sample of Construction Firms</u>	
	('000)	% Change Over Same Period Previous Year	('000)	% Change Over Same Period Previous Yr.	('000)	% Change Over Same Period Previous Yr.
1981	594.5	5.5	130.9	9.6	n.a.	
1982	580.1	-2.4	127.0	-3.0	n.a.	
1983	524.3	-9.6	150.9	18.7	n.a.	
1984	519.0	-1.0	199.7	32.4	386.1	b/
1985	530.9	2.3	212.6	6.5	348.5	b/
July	536.3	2.9	211.3	0.7	373.3	-9.7
August	535.6	2.9	213.2	0.9	370.4	-7.8
September	536.9	2.4	217.8	3.8	355.0	-4.7
October	534.4	1.8	222.5	6.5	335.2	-11.7
November	528.9	0.6	223.2	7.1	344.8	-14.0
December	521.6	0.2	224.7	11.2	312.5	-19.3
1986						
January	522.7	1.2	225.0	11.1		
February	520.4	0.6				
March	528.8	-0.3				

n.a.: Not available. Information on a sample of construction establishments started to be collected monthly only in 1984.

^{a/} Sample of 1,188 manufacturing establishments covering 51% of establishments in the 1971 industrial census. Assembly industry is known as the "maquiladora" industry.

^{b/} July to December simple averages.

Source: SPP/INEGI, Cuaderno de Informacion Oportuna, No. 157, April 1986.

Table II.8: MEXICO: INDEX OF REAL CONTROLLED PRICES OF SELECTED NON-FOOD AND BASIC FOOD GOODS, 1980-MAY 1986 (1978=100)

	<u>NON-FOOD ITEMS</u>					
	Gasoline	Diesel	Natural Gas	Electricity	Metro	Urban Transport
1980	67.1	67.0	82.1	96.4	67.0	94.1
1981	53.9	54.0	171.4	82.1	52.3	95.1
1982	84.4	109.0	107.1	85.7	32.9	82.9
1983	140.0	227.0	232.1	92.9	16.2	64.9
1984	132.9	228.0	357.1	89.3	9.8	62.9
1985	128.6	235.0	403.6	90.1	6.2	39.9
<u>1986</u>						
Jan.	139.7	291.1	512.1	118.4	4.6	30.8
Feb.	133.7	288.5	508.5	116.9	4.4	29.5
Mar.	127.8	285.3	504.0	115.7	4.2	28.2
Apr.	121.5	280.6	496.7	113.8	4.0	26.8
May	114.4	273.4	485.0	110.9	3.8	25.2

	<u>BASIC FOODS</u>							CONASUPO's Food Subsidies (1982=100) ^{a/}
	Tortilla	White Bread	Powered Milk	Eggs	Rice	Beans	Cooking Oil	
1980	77.3	91.5	92.0	83.1	102.5	146.8	87.6	
1981	78.3	71.5	93.4	76.9	101.7	138.0	75.6	
1982	70.2	63.9	90.1	60.7	84.4	106.5	85.4	100.0
1983	50.2	66.8	80.5	54.9	77.4	78.3	74.1	163.1
1984	41.9	71.1	96.4	63.3	113.3	61.1	73.2	160.7
1985	56.7	89.6	92.5	63.4	132.5	116.7	75.2	74.1
<u>1986</u>								29.7 ^{b/}
Jan.	57.5	73.6	96.5	63.0	115.8	148.4		
Feb.	55.1	70.5	92.4	77.4	110.9	142.2		
Mar.	52.6	67.4	88.3	73.9	129.0	165.3		
Apr.	50.0	64.0	101.4	70.3	122.6	157.1		
May	83.7	143.2	108.7	66.2	115.4	147.9		

^{a/} Does not include sugar subsidies.

^{b/} Budgeted amount. According to SECOFI, the actual amount is likely to be significantly lower.

Source: Direccion de Planeacion Financiera, DGPB, for all figures except for the total CONASUPO's food subsidies. These figures are from CONASUPO.

from 5.5% in 1982 to 3.5% in 1984; and on housing from 1.2% of GDP in 1982 to less than 1% in 1984. Studies in other Latin American countries suggest that it is precisely these categories of expenditure, except perhaps for housing, which are highest in their redistributive impact. Furthermore, the most redistributive expenditures within education and health (i.e., those on pre-primary and primary education and on the SSA and COPLAMAR) declined more than expenditures on higher education and on health care institutions, such as the IMSS and ISSSTE, which deliver health services to middle income people (Tables II.9 and II.10). The SSA and COPLAMAR cover about 40% of the population, including the poorest clientele not covered by IMSS, ISSSTE, or the private sector.

15. Although there are no signs of any major deterioration in social indicators such as infant mortality and school enrollment (although UNICEF figures show some increase in infant mortality from 1982 to 1983), there are signs that the quality of services has suffered. Material inputs needed to support basic health services in the SSA, for instance, have been reduced sharply in these years. The same has occurred with educational materials, such as textbooks and other school aids. This is threatening Mexico's capacity to continue upgrading its major social indicators which, despite rapid advances in the 1970's, remain below those of countries with similar per capita incomes. Much could be done to prevent stagnation or even deterioration of the social indicators, if, as proposed below (paras. 27 to 35), measures to increase the redistributive impact and efficiency of social spending were taken.

Table II.9: MEXICO: TOTAL PUBLIC SECTOR HEALTH EXPENDITURES, 1980-1985
(billions of 1970 Mexican pesos)

	1980	1981	1982	1983	1984	1985 ^{a/}
SSA ^{b/}	3.1	3.3	3.5	2.7	3.3	3.4
IMSS ^{c/}	9.7	10.5	11.8	10.3	7.3	10.9
ISSSTE ^{d/}	2.2	2.2	2.3	1.7	1.3	1.9
COPLAMAR ^{e/}	0.3	0.4	0.5	0.4	0.3	0.5
Total	15.3	16.4	18.1	15.1	12.2	16.7

^{a/} Budgeted

^{b/} Health and Welfare Secretariat

^{c/} Private sector social security fund.

^{d/} General government social security fund.

^{e/} Low-income rural health program operated by IMSS.

Source: World Bank - Mexican Government, Mexico: Public Investment Review, August 1986.

Table II.10: MEXICO: ENROLLMENT AND PUBLIC SECTOR EXPENDITURES PER STUDENT, 1982-1984
(in thousands of 1970 pesos)

Education Level	1982	1983	1984
Preschool			
Enrollment	1,691.0	1,891.2	2,147.5
Expenditure	622	440	394
Primary			
Enrollment	15,222.9	15,376.2	15,219.2
Expenditure	757	428	426
Secondary (I)			
Enrollment	3,990.6	3,885.3	4,396.1
Expenditure	1,162	797	698
Secondary (II)			
Enrollment	1,535.4	1,627.5	1,744.9
Expenditure	2,579	1,646	1,349
University			
Enrollment	918.8	981.2	1,021.9
Expenditure	6,657	4,853	4,173

Secondary (I): lower level secondary.

Secondary (II): higher level secondary.

Source: Fuller, Bruce, Review of Public Investment Mexico: The Financing of Education, EDT, The World Bank, 1985.

II. Main Issues and Recommendations

16. From the above discussion, it can be inferred that Mexico now faces two main social issues: a) how to generate employment for the more than 900 thousand people entering the labor force each year (so as to prevent even larger numbers of people from falling into poverty); and b) how to reduce extreme poverty, which may have increased during these years. It is recognized that solutions to these problems are complex, pose sensitive political and social issues, and, in many cases, may require lengthy periods to implement. The following sections are intended mainly to serve as a checklist of key issues, including some suggestions for possible avenues of approach. Careful study and refinement of these and other useful ideas would, obviously, be needed.

A. Generating Employment

17. To generate full employment, the Mexican economy would obviously need to grow faster. But an increase in the labor intensity of existing output would also be desirable, so that, even at slower rates of growth, higher employment could result.

18. The Mexican government has taken important steps toward these objectives by starting to liberalize the economy. For instance, non-oil exports, which have grown rapidly for the past two years, are 35-40% more labor intensive than non-export related jobs. The potential for employment is exemplified by the enormous growth of the assembly (in-bond) industry during these crisis years (Table II.7). In fact, employment in this industry grew by 62% between 1982 and 1985, as exporters sought to benefit from the over 40% decline in Mexican wages in dollar terms. As keen competition among multinationals of developed countries is expected to continue (e.g., in electronics, chemicals, communications), Mexico could be continue to be attractive as a locale for producing lower priced manufactured goods.

19. Similarly, increasing real agricultural prices has stimulated output and employment growth. Agricultural employment went up by nearly 350 thousand between 1982 and 1986, the largest non-public sector increase. Composed principally of unskilled workers, agriculture is the key sector for increasing incomes of the poor, and for reducing internal as well as international migration.

20. Other micro-policy changes are needed. For example, i) eliminating or reducing existing payroll taxes, and ii) strengthening the special employment and training programs would be helpful.

- (i) Reducing the Taxation of Labor. Although there are no recent studies on the extent to which payroll taxes, numerous labor regulations, and incentives for capital investment have affected employment, the adverse impact may be considerable. One 1978 study concluded that replacing the payroll tax with a value-added tax could increase industrial employment by up to 200 thousand jobs. Notwithstanding, the already high payroll tax was increased in 1986, when the cost of the government's share (1.875 percentage points) was transferred to employers.

Although the specific changes needed to reduce taxation of labor without weakening overall tax collections require additional study, further increases in social security payroll taxes (18% in the IMSS and 27.7% in the ISSSTE) should be avoided, if at all possible. Increases in the efficiency of IMSS and ISSSTE are also greatly needed. Studies indicate these institutions run considerable deficits in their health programs because i) these programs give priority to expensive curative medicine (about 90% of expenditures are of this type); ii) administrative expenditures are high, as indicated by the fact that the ratio of

employees to hospital beds is between 1.5 and 2.0 times those of countries such as Costa Rica, Chile, Peru, and Uruguay; and iii) most medical services are delivered free of charge to affiliates. Free medical services, especially ambulatory services, are known to lead to excessive demand and waste. These deficits have been financed by resources borrowed at very low nominal interest rates (5% per annum) from the pension and professional-risk funds. If reforms are not made soon, future pensions may suffer, the payroll tax may have to be increased, and/or the federal government may have to bail out the health system. To repay its existing debts, the health program would need an increase in its present share of the payroll tax from 9% to 13% of basic salaries.^{1/}

- (ii) Strengthening Special Employment and Training Programs. Special employment and training programs are needed to ease the process of industrial and public enterprise restructuring that is taking place now in Mexico. As in other countries, although these structural changes are likely to generate substantial employment in the medium and long runs, the employment response could be slow in the short-run, as expanding industries lag behind contracting ones, and the skill mix of new industries differs from that of traditional industry. Employment programs could emphasize public works in social sectors, such as basic infrastructure in poor areas and housing for the poor, to a larger extent than at present. These projects have the advantages of benefitting primarily the needy, being highly labor intensive, and being relatively inexpensive. Employment programs could also be handled through the private sector. Training programs could draw upon the existing system of apprenticeship in the private sector, at little cost to the public sector. Apprenticeship could also be opened for the retraining of displaced workers. However, although these special programs are useful for alleviating acute short-term social problems, they are difficult to implement and to dismantle once the emergency has passed.

B. Reducing Extreme Poverty

21. Although rapid employment creation, especially for the unskilled, is a key factor in reducing extreme poverty, the government has available two additional instruments to attack poverty directly: i) targeting subsidies; and ii) increasing the redistributive impact and efficiency of social spending.

- (i) Targetting Subsidies. The Government has drastically reduced general subsidies, intending to replace them with targetted subsidies. The only subsidies to be targetted so far are those on tortillas consumption, although subsidies of basic public services for the poorest, such as water, electricity, and gas,

^{1/} Mesa-Lago, Carmelo, El Desarrollo de La Seguridad Social en America Latina, Estudios e informes de la CEPAL No. 43, Santiago Chile, 1985.

may also be desirable. These could be targetted via separate tariffs for poor and non-poor areas and by the level of consumption.

Tortilla subsidies are targetted through the distribution of food stamps. Although still in an early stage of development, this system appears unlikely to reach the poorest sectors of the population, which are located mainly in rural areas, for several reasons. Firstly, the Mexican "tortibonos" are being distributed in part by trade unions and the political system, creating a potential for diversion to less needy, urban-based groups. Secondly, the remainder is to be distributed through CONASUPO's stores located in poor urban, not rural, areas. Thirdly, the rural poor generally do not purchase commercially-prepared tortillas, preferring to prepare them by hand at home. Thus, they have scant use for the current food stamps.

Since the Government has indicated that eventually it plans to extend the food stamp program to purchases of corn, beans, rice, and cooking oil, a first step might be to accelerate those plans, so that a greater number of food items important in the diet of the rural poor could be made eligible. A second improvement would be to distribute the tortibonos not only through CONASUPO stores (DICONSA and LICONSA) located in poor rural or peri-urban areas, but through any reputable private stores located in these areas. Thirdly, the present size of the food stamp program is inadequate to meet even minimal nutritional goals, so that funding needs to be increased. Preliminary World Bank staff work suggests that, with an expenditure of about US\$250 million annually (about 0.2% of GDP, or 4 times the current level of food stamp subsidies), the purchasing power of the poorest 16 million persons might be raised back to the level of 1983, i.e., before subsidies were phased out. This assumes that overhead and diversion of resources could be held to a minimum.

An alternative scheme adopted with much success in other countries is that of distributing food through the health system. This could be done in Mexico through COPLAMAR and PRODIAP. These programs could be strengthened by serving as outlets, either for food stamps or for the direct distribution of subsidized food. Linking food distribution and primary health care has proven to be highly effective as a means of reducing infant mortality and improving the nutrition of the poorest (as is being demonstrated in some small pilot programs in Mexico).

- (ii) Increasing The Redistributive Impact and Efficiency of Social Spending. As indicated above, outlays on health, education and, to a lesser extent, housing are probably the most highly redistributive kind of public spending. However, enhancing the redistributive impact and efficiency of existing spending, as suggested below, would be preferable to increasing these expenditures in this time of severe fiscal restraint.

22. Health. The redistributive impact of expenditures could be greatly improved by increasing primary health care coverage in the SSA and COPLAMAR programs. At present, the SSA appears to devote more than 80% of its resources to curative medicine and attends primarily the most developed states of the northern and central areas of the country. Likewise, COPLAMAR emphasizes curative care, facility-based as opposed to outreach services, and excessive reliance on physicians as opposed to nurses and midwives.^{2/}

23. Efficiency could be increased in at least three ways: a) by streamlining the Health and Welfare Secretariat's (SSA's) administrative expenses which, according to the cited study, were about 21% to 33% of total costs from 1981 to 1984 (or three to four times what is advisable for institutions of its nature and size); b) by increasing expenditures on pharmaceuticals and other medical supplies; and c) by improving the incentive system, which means changing the way resources are transferred from the SSA to hospitals and other providers of services, increasing cost recovery in the SSA, and introducing deductibles and co-payments for the insured in IMSS, ISSSTE and other institutions. Releasing resources to hospitals based on the amount and type of services they render, rather than on a fixed budget basis, has been tried successfully in other Latin American countries. A "price system" is used to distribute these resources. Under this system, each decentralized unit (e.g., the hospital) has an incentive to increase the amount and quality of services it renders, competing with other providers. Lists of prices for over 2,000 medical procedures and x-rays already exist in other countries, and could be adapted to Mexico's own nomenclature of medical services. The ongoing decentralization plan provides a good opportunity for introducing reforms of this sort, which will obviously require a long-term Government commitment to succeed.

24. Education. To increase the redistributive impact of expenditures, the share of national resources devoted to preprimary and primary education (the only levels of education the poor are likely to attend) could be gradually increased. Subsidized higher education tends to have far lower social returns. And it benefits students belonging mainly to middle and upper-income families which, in many cases, could bear a larger share of the costs of instruction. For instance, in the student body at the National Autonomous University of Mexico (UNAM), only 17% of the students surveyed in 1984 belonged to families whose incomes were considered to fall below the official poverty line. As the largest state university in Mexico, UNAM absorbed about 45% of the national budget for higher education.

25. At a national level, average annual expenditures per primary school student in 1984 were 426 pesos (1970 pesos), while for a student in higher education they were 4173 pesos (Table II.6). Since expenditures on higher education are about 20% of total public outlays for education, much could be achieved if even a small fraction of that amount were reallocated toward improved primary and secondary education in poorer urban and rural areas.

^{2/} Mexico: Public Sector Investment Review. A Joint Report, August, 1986 (by the Mexican Government and the World Bank).

26. State university tuition fees could be gradually increased accompanied by a student loan program and scholarships for needy students. For instance, according to a study done by the Bank of Mexico, if tuition fees were increased to their real level of 1948--when fees represented 18.1% of the minimum wage--revenues equal to roughly one-quarter of the UNAM budget could be provided from tuition, compared with the present 0.3%. If tuition were increased to the levels charged by private universities and technical institutes, UNAM would run a considerable surplus. Raising tuition fees would also increase the external efficiency of higher education, encouraging students to accelerate the completion of their studies, reducing over-crowding, and elevating the level of scholarly commitment.

27. An increase in the share of budgetary outlays set aside for textbooks and other school materials is also needed. Administrative expenditures and teacher salaries now account for up to 90% of recurrent expenditures, leaving few resources to provide complementary inputs.

28. Housing, Water and Sewerage. Given the large housing deficit, calculated at almost 5 million units in 1985, and the fact that about 35% of the population lacks potable water and 57% lack sanitary sewerage services, increasing the redistributive impact of spending in these areas is of high priority. The Government has already taken important steps in this direction by increasing the role of FONHAPO, a program designed to finance inexpensive housing solutions for the poorest households (i.e., non-wage workers earning less than 2.5 times the minimum wage). However, FONHAPO controls only about 14% of all housing funds, while the Programa Financiero de Vivienda (PFV-FOVI) and the payroll funds, which provide financing mainly for middle-income families, control the remaining 86%. Increasing the redistributive impact of housing outlays means eliminating or reducing credit subsidies for middle class housing, particularly from the payroll funds, where subsidies remain substantial. FONHAPO and PFV-FOVI have already begun this process. Because real wages have sharply declined, the increased payments derived from a shift to positive real interest rates probably could not be passed entirely into higher monthly mortgage payments for many borrowers, but a scheme of interest capitalization could be introduced. If a credit subsidy for the poor were considered indispensable, it should be in lump sum form (possibly cash for the down payment), rather than via a reduction of interest rates. In this way, the amount of the subsidy would be transparent, fewer distortions would result, and the subsidy would be targetted more effectively.

29. By emphasizing inexpensive solutions, more of the poor would benefit from current social outlays. Other possibilities, drawn from the experience of Mexico and other Latin American countries, might include: (a) regularizing the tenancy of urban squatters so that poor people could more readily obtain loans and would have an owner's incentive to upgrade their living quarters; (b) connecting residents in clearly-defined poor communities to basic services of water, sewerage, and electricity, and charging accessible rates; and (c) self-help housing programs. If these projects dealt with the poorest in the communities where they live, subsidies would be automatically targetted, resulting in little diversion to higher-income groups.

PUBLIC SECTOR INVESTMENT

AN OVERVIEW

1. Mexico provides a good example of a mixed economy, where a strong public sector exists beside a usually dynamic and thriving private sector. The policy towards the role of the private sector in the economy, however, has varied over different administrations. In general, the sphere of activity for the public sector has been seen as those "vital and indispensable" sectors in the national economy where the private sector was unable or unwilling to enter or lead the way. The interpretation and application of this general notion, however, has also differed over time, as evidenced by the changing emphasis in public policy (e.g., towards land distribution and education), and by the state takeover of different sectors over time: the petroleum sector in 1938, the power companies in the early 1960s, and the commercial banks in 1982. In some sectors, notably transport (road transport) and heavy industry (e.g., steel), the state and private enterprises operate side by side.

2. Precise definition of the public sector is usually difficult in any country. In Mexico the distinction between the public and private sector is blurred by varying degrees of state participation and the extent of control, legislative and budgetary, that the government can exercise over an enterprise. Mexico has a federal structure of government, with considerable autonomy granted to the states. There are parastatals which are under direct congressional budgetary control (at present numbering twenty-seven, including PEMEX, the national oil company) and others which are not. In this report, the public sector includes only the operations of the federal government, PEMEX, the other twenty-six state enterprises under budgetary control, two large state enterprises which are not under budgetary control (viz., TELMEX, Mexico City Metro), and the government of the Federal District. The main reason for adopting this definition is that the data for these entities are more readily available. But these entities cover more than 90 percent of public investment. A major omission in this definition, of course, is the operations of the state governments. However, since federal government transfers are a significant part of state finances, the state governments are not totally excluded from the claims on public resources.

Evolution of Public Investment

3. During the past two decades, public sector investment showed a steady increase: it grew from 4.2% of GDP in 1960-64 to 10.1% of GDP in 1977-1982 (see Table 1). Meanwhile, the share of public investment in total investment rose from 25% in 1960-64 to 45% during 1977-1982. Public sector investment experienced an unprecedentedly high growth rate during 1977-1981 (20% per annum) before starting its sharp decline in 1982.

Table A-1: GROSS FIXED INVESTMENT ^{1/}
(% of GDP)

Year	Private	Public	Total
1960-1964	12.6	4.2	16.8
1965-1970	13.1	6.1	19.2
1971-1976	12.6	7.2	19.8
1977-1982	12.7	10.1	22.6
1983	9.4	6.7 (7.5)	16.0
1984	9.9	6.5 (6.7)	16.3
1985 <u>P/</u>	10.9	6.1 (6.5)	17.0

p/ Preliminary.

1/ The public sector investment figures for 1983-1985 differ from those provided in this chapter. The latter are shown in parentheses.

Sources: National Accounts, Ministry of Programming and Budgeting.

4. The breakdown of public investment by implementing agency -- government versus public enterprises -- may help explain its impact on the productive capacity of the country, and perhaps on the behavior of private investment. The share of investment by the government (federal and local) increased from 2.2% of GDP in the early sixties to 3.3% of GDP in 1977-1982, whereas the investment by the parastatal sector increased its share in GDP from 3.9% to 6.8% between these two periods (see Table 2). This translated, in relative terms, into an increase in the areas of energy and industry, in some cases complemented by the private sector and in others displacing it. Investment by the parastatals under budgetary control, which had remained at 3.0% of GDP during 1960-1976, rose to 5.1% of GDP during 1977-1982 principally due to rapid growth by Pemex and CFE: investment by these two parastatals during 1977-1982 reached over 40% of total public investment.

Table A-2: PUBLIC INVESTMENT BY IMPLEMENTING AGENCY

Year	Total		Federal ^{1/}		Total %	Public Enterprises				
	% of GDP	%	% of GDP	%		Under Budgetary Control		Outside the Budget		
	% of GDP	%	% of GDP	%	% of GDP	%	% of GDP	%	% of GDP	%
1960-1964	6.1	100.0	2.2	36.1	3.9	63.9	3.3	52.1	0.6	11.8
1965-1970	6.1	100.0	2.0	34.6	4.1	65.4	3.0	53.1	1.1	12.3
1971-1976	7.2	100.0	2.4	33.9	4.7	66.1	3.0	42.3	1.7	23.8
1976-1982	10.1	100.0	3.3	32.7	6.8	67.3	5.1	49.8	1.7	17.5

1/ Includes State and local Governments.

Source: National Accounts, Ministry of Programming and Budgeting.

5. The sectoral breakdown of investment also went through a change over time in response to changing priorities (see Tables 3 and 4). Investment in transport and communications, as well as in social development, lost their relative shares between 1960-64 and 1977-82. Meanwhile, agriculture, and industry and energy (in particular, the oil and gas sectors) made substantial gains.

6. With the severe contraction of available resources, beginning in 1982, public sector investment bore the brunt of expenditure cuts. In real terms, public sector investment declined by 20% in 1982, and another 30% in 1983. The Government achieved this by abandoning, postponing and slowing the implementation of projects virtually across the board. By 1985, public sector investment stood at 6.5% of GDP from an average of 10% during the previous sexenio. As a result of the high levels of public investment realized prior to the 1982 crisis and the sharp reduction in growth thereafter, there was some excess capacity in many sectors. Therefore, it had been possible to cut back investment expenditures -- during 1983-1985 -- without creating excessive bottlenecks.

7. Resources for public investment are likely to remain constrained during 1986-1988: in fact, public investment in 1986 may get as low as 5% of GDP (roughly equivalent to US\$8 billion). As a result, a careful review of the public investment program has become of utmost urgency. The sectoral discussions that follow review the investment programs prepared by the relevant agencies/institutions -- where they are available -- and then point out areas of higher priority and possible candidates for cuts/deferrals in case of tighter budgetary ceilings. In these reviews, the sectoral priorities and issues are also highlighted.

Sector Reviews

8. In the energy sector, Government's first priority has been increasing production/generation capacity to meet overall demand (including demand for 1.5 mbd of crude exports). Other key Government objectives include energy conservation, diversification and adequate valuation of energy products. Critical to energy conservation will be energy pricing policies; investments aimed at reducing energy loss in power distribution and flared gas; and incentives and support for energy conserving investments by industries, the transport sector and households. The largest potential for diversification is in electricity generation where efforts would focus on reducing the share of hydrocarbon based plants. However, improvement in this area in the medium term will be slow given the large share of oil based generation plants in ongoing investments. With respect to pricing, the Government has taken some big steps in implementing a more realistic hydrocarbons pricing policy, but there is still room for improvement, especially in the areas of LPG and fuel oil. Pricing, however, will be most crucial for improving the financial situation of the power subsector, where the low level of tariffs necessitate large federal transfers. In this regard, there is an urgent need for a thorough review of both the average levels and structure of electricity tariffs.

**Table 3: SECTORAL COMPOSITION OF PUBLIC INVESTMENT
BY PERCENTAGE SHARE: 1971-1986
(%)**

	1971-76	1977-82	1983	1984	1985	1986 ^{5/}
PEMEX	18.2	30.3	28.0	24.4	20.3	20.3
CFE ^{1/}	13.4	13.6	12.5	13.5	13.6	13.5
Chemicals ^{2/}	0.5	1.1	1.4	1.6	1.6	1.2
Steel	4.9	2.5	3.6	3.3	3.8	1.3
Mining	1.5	1.5	1.6	2.1	1.9	1.2
Transport	17.4	9.0	11.9	10.6	11.6	9.0
Communications (TELMEX)	5.8	4.0	4.1	5.3	5.7 (4.3)	7.8 (7.0)
Agriculture & Rural Dev. (SARH)	15.2	15.4	10.9	12.3 (8.0)	11.8 (8.9)	12.4 (6.2)
Health & Social Welfare	4.4	4.0	3.1	3.9	4.0	3.3
Education	4.5	3.1	3.3	3.3	3.6	3.8
Water & Sewerage ^{3/}	2.0	1.4	2.4	2.6	3.4 ^{e/}	2.4
Housing	1.7	0.9	1.6	1.4	2.0 ^{e/}	2.4 ^{e/}
DDF	7.2	7.8	10.5	10.9	11.9 ^{e/}	9.4
Total explained	96.7	94.6	94.9	95.2	95.2	88.0 ^{4/}
Total Public Investment	100.0	100.0	100.0	100.0	100.0	100.0

^{e/} Estimates

^{1/} Includes CLFC

^{2/} Fertilizers only

^{3/} Does not include DDF investments in this sector.

^{4/} The large unexplained component for 1986 is due to lack of sufficient detail on budget categories of "regional development" and "investment by entities outside the budget".

^{5/} Revised budget figures.

Table 4: SECTORAL COMPOSITION OF PUBLIC INVESTMENT: 1983-1986
(billions of pesos)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> ^{5/}
PEMEX	364	469	598	850
CFE ^{1/}	163	260	401	568
Chemicals ^{2/}	18	31	47	51
Steel	46	64	111	54
Mining	20	40	56	50 ^e
Transport	153	204	343	380
Communications (TELMEX)	53	102	167 (128)	325 (292)
Agriculture & Rural Development (SARH)	141	237	347 (262)	520 (260)
Health & Social Welfare	40	74	119	138
Education	43	63	107	158
Water & Sewerage ^{3/}	31	50	100 ^{e/}	100 ^{e/}
Housing	21	27	60 ^{e/}	100 ^{e/}
DDF	136	210	350 ^{e/}	393
Total Explained (share in GDP)	1229 (7.2)	1831 (6.4)	2808 (6.2)	3687
Total Public Inv. (share in GDP)	1293 (7.5)	1920 (6.7)	2950 (6.5)	4196
GDP	17,142	28,749	45,588	
Aver. exchange rate (ps.per US\$)	120.0	167.8	257.0	530.0 ^{e/}

e/ Estimates.

1/ Includes CLFC.

2/ Fertilizers only.

3/ Does not include DDF investments in this sector.

4/ The large unexplained component for 1986 is due to lack of sufficient detail on budget categories of "regional development" and "investment by entities outside the budget".

5/ Revised budget figures.

9. PEMEX investment during 1977-1982 amounted to about US\$30 billion. It included exploration and development, oil refining, upstream petrochemicals, and distribution infrastructure (i.e., pipelines, ports, storage facilities, etc.). With half of the investment expenditure going to exploration and development, Mexico's proven hydrocarbon reserves rose to some 57 billion barrels by the end of 1982, from 7.2 billion barrels at end-1976. Similarly, PEMEX production of crude oil increased from less than 300 million barrels in 1976 to one billion barrels in 1982. During the same period, the refining capacity (for primary distillation) went from 969 tbd to 1,270 tbd and petrochemicals production moved from 3.9 million tons to 10.6 million tons. This massive development program, however, despite its many achievements, was rather unbalanced.

10. The new sexenio (1983-88) was viewed by many as a period of consolidation for PEMEX, in which the distortions resulting from the unbalanced development of 1977-1982 were to be corrected. This required investment in basic infrastructure such as storage and loading facilities, improvement in the pattern of refinery output so that it better matched the composition of product demand, and learning to manage its network of gas gathering/processing/transport facilities as a "system". It was also crucial that exploration and development of new oil fields and secondary recovery from existing fields were not restricted by a lack of investment, so that PEMEX could meet reasonable increases in internal demand and at the same time maintain a sizable volume of petroleum exports. The intention was to reach by 1988 a production capacity (around 3.3-3.4 mbd) that would not only enable Mexico to meet these two goals, but also provide it with some leg-room.

11. The medium-term Energy Plan put PEMEX investment requirements for the period 1984-88 at 2.8 trillion in 1984 pesos (equivalent to US\$3.3 billion per annum in constant 1984 dollars). The proposed investment for the period was to be spread over primary production (62%), petrochemicals and natural gas processing (11%), refining (12%), commercial area -- pipelines, terminals, storage tanks -- 9%, infrastructure -- ports and roads -- (3-4%) and other (2-3%).

12. Clearly, the investment envisaged for PEMEX (in the Energy Plan) was based on optimistic assumptions with respect to economic growth, domestic demand for petroleum products, and favorable export markets that would provide the resources for such investment. With all the above parameters having changed (i.e. with little economic growth, little increase foreseen in overall demand for Mexican petroleum products, and stringent resource availability), it appears that PEMEX investment during the next few years will be a lot smaller than originally planned.

13. Even before the sharp reversal of 1986 in the world oil markets, PEMEX's average annual investment (during 1983-85) had been only a fraction of the annual investment levels realized during 1977-82: in relation to GDP, PEMEX investment amounted to 2.0% in 1983, 1.6% in 1984 and 1.3% in 1985, compared to an average of 3.0% during the previous sexenio. The most recent figures put PEMEX investments at 1.1% of GDP during 1986, increasing to 1.3% of GDP in 1987 and 1.4% of GDP by 1988.

PEMEX INVESTMENT

	<u>1977-82</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986^{a/}</u>	<u>1987</u>	<u>1988</u>
As percent of GDP	3.0	2.0	1.6	1.3	1.1	1.3	1.4
In Current Pesos (billions)		348	469	598	850		
In 1984 Pesos (billions)		586	469	380			

a/ revised budget figure

14. The reduced levels of investment during 1983-85 have already shown a negative impact on PEMEX operations through (i) a slight drop in reserves and production capacity; (ii) production problems in gas and petrochemicals; (iii) little improvement in production/export flexibility due to slow progress in transport and infrastructure investment. As a result of lower world-oil prices, further expenditure cuts are being forced on PEMEX. The revised budget figures indicate that capital expenditure in 1986 will be 10-15% lower than the original amounts budgetted. PEMEX has adjusted to these cuts by giving top priority -- rightly so -- to investment in exploration and development. This reflects PEMEX's realization that it is essential to continue its exploration and development programs so that it can meet its export targets in the early 1990s. It has decided to slow down construction in ongoing refinery, petrochemical and infrastructure projects. The impact on refining operations will be negligible as a result of lower growth rates projected in domestic demand for refined petroleum products. In the case of petrochemicals, however, the implications comprise a higher import bill for such products, and bottlenecks for other subsectors such as fertilizers and secondary petrochemicals.

15. A major concern is PEMEX's ability to find financing even for its reduced investment plans. Given the present tax structure, PEMEX will be unable to finance its investment solely from its own resources. With the exception of Japanese and American Exim banks, even official export agencies appear hesitant to provide new credits: along these lines, the renewal of PEMEX's bankers' acceptances will also be crucial. The question here is simply: "how can a profitable public company find external financing for high return projects, when the country itself is in a serious financial and economic crisis." A second issue relates to maintaining Mexico's share in world oil markets. This will require increased flexibility in PEMEX marketing policies, in particular, in regards to pricing and the self-imposed limit on exports to any one country.

16. Power sector investments have accounted for about 13% of public investment since the mid-1960s. The most recent investment program prepared

by CFE for the 1986-1988 period is 1,917 billion in 1986 pesos (roughly US\$1.2 billion per annum), growing at a rate of 11% per annum. This investment program, however, although substantially smaller than the one envisaged by the energy plan, is still based on a relatively high demand scenario (7.3% per annum). The latter does not appear to take account of real tariff increases expected over 1986-1988 and a conservation program that will reduce energy losses in power generation/distribution, and does not consider the viability of a continued distribution effort in the context of the sectors' resources and priorities. Furthermore, despite the expected tariff increases and the conversion by the Government of some of CFE's debt into equity, the power subsector will not be able to generate any savings to finance its investment program and will continue to require large federal transfers through 1988. Taking into consideration the huge financing implications and the potential of lower demand growth, there may be room for further reduction in the power sector investment. Although the consequences of establishing precise investment priorities would require formulation of a new expansion plan and detailed analysis of the reliability of the power system, the following general comments on this matter can be given. If further cuts are to be made, the first step would be to cut back on distribution investments in non-priority areas and to delay start-up of new generation projects; and second, to slow down construction of ongoing projects. The impact of reduced investments on the reliability of supply could be lessened through improvements in the efficiency of the power system.

17. In fertilizers, priority should be given to making the industry more competitive by international standards through improving the efficiency of production and distribution. This will require a rationalization program that may involve the closing of uneconomic plants and the rehabilitation of existing facilities. Other issues that should be addressed are the separate planning of ammonia and urea facilities by Pemex and Fertimex, and fertilizer pricing policies which have in particular, increased dependence on Government contributions to sustain operations, to invest and to service debt. Changes in pricing policies and structure would need to be accompanied by organizational changes which would make all subsidies transparent and aim at increasing competitive pressure in the sector (in particular, clear separation of production and distribution activities, liberalization of distribution activities) and which would create an environment favorable to private sector involvement. Formulation of a financial restructuring package could help rationalize Fertimex operations, and allow the company to become self-reliant. The investment program envisaged for the period 1986-88 is some 280 billion in 1986 pesos (equivalent to about US\$180 million per annum, roughly about the same as the annual average investment realized during 1977-1984). With respect to the major new investment proposals, there is little doubt that the output from the two urea plants would be needed to cover the projected deficit in nitrogen by 1990, although it would be advisable to limit such capacity to meeting domestic demand only. The construction of new sulfuric and phosphoric acid plants based on sulfur, however, is unlikely to be economically viable. However, phosphoric acid production from smelter by-product sulfuric acid may be economically viable, depending on plant location and infrastructure costs.

18. In secondary petrochemicals, the Government is reconsidering the rationale for its involvement. Depressed world prices and markets and general over-capacity makes any venture primarily based on exports doubtful

at the moment. In addition, this is typically a sector where the private sector is efficient as long as a competitive environment is maintained.

19. In steel, a restructuring of Sidermex production facilities is now underway: a first step in this direction has been taken by the shut down of Fundidora. Planned investments should be further reviewed in this context. (The revised budget figures for 1986 allocate the equivalent of US\$100 million for investment in steel, in comparison to an average annual investment of US\$400 million during 1977-1985). Beyond Sidermex, an in-depth study of the whole Mexican steel sector should identify the products for which the country has a comparative advantage, the technological improvements required, and a package of policies that would ease transition of the industry towards a more optimal product and technological base. Such restructuring is needed if Mexico is to be successful in its efforts to export manufactured and semi-manufactured steel-based products, and desires to maintain/acquire reasonably advanced technology, and more generally to improve the international competitiveness of the industrial sector. The investment requirements in the short term are mainly in the areas of improved plant maintenance, balancing of existing lines, some debottlenecking, and quality/performance improvement. The Ahmsa facilities, in particular, need attention due to years of insufficient funding of maintenance. Fundamental issues in the longer-term investment outlook appear to be mainly in the area of flat product productive facilities. The options are to reorient the production to the SICARTSA complex, carry out large-scale investments in the Ahmsa and/or Hylsa (private) facilities with their attendant inadequacies, or meet a large part of future flat product needs through imports. In this regard, it is crucial that a steel sector policy be formulated by the Government with the participation of the private sector, that could among other things, clearly define the role of the public and private sectors.

20. Mining investments proposed for the 1986-1988 period -- prior to the drop in oil prices -- translated into US\$250 million per annum. In adjusting the investment program, first priority should be given to preservation of production capacity of viable operations and basic mineral exploration effort necessary to preserve the growth potential of the subsector over the medium and long term. Second priority should be given to the program of credit assistance to private SMM (Small and Medium Mining), to MICARE's Carbon II project, which is designed to feed a thermal power plant falling into the power sector's least-cost development program, and to the fertilizer minerals program. Of lowest priority are the Sidermex expansion program in coking coal and the Sidermex iron ore program. For the former, part of the investment program could be postponed to later years with no substantial economic loss. In the latter case, some balancing and optimization investments for existing facilities would be sufficient.

21. In transport, the present administration has taken concrete actions to reorganize and consolidate the sector under a single secretariat; to direct its limited resources more towards maintenance and rehabilitation of transport facilities and the completion of high priority works rather than initiate new works; and to rationalize pricing practices and reduce unwarranted subsidies to the sector. The review of investment plans for 1986-88, which was carried out prior to the sharp decline in oil prices and the resultant budgetary cutbacks, called for real increases of 8-15% per year

over a 1985 budget of Mex\$343 billion (equivalent to US\$1.33 billion, about the same as the annual transport investment realized during 1977-1982). This would have permitted the completion of ongoing projects initiated in the 1979-81 period, particularly in railways and highways, and the beginning of some priority works in 1987-1988.

22. The initial 1986 budget represented 15% and 10% real declines for highways and railways, respectively. These levels were cut further and because of higher than expected inflation and more rapid devaluation of the peso the real declines were even larger. Transport investment in 1986 fell by more than a third (in real terms) from its 1985 level. While SCT responded by appropriately cutting back on new rail infrastructure and major road modernization works and generally not reducing maintenance levels, the scope of the overall budgetary reductions required a revamping of the investment and maintenance budgets rather than across the board cuts. This latter requirement appears to have been met by the transport investment program proposed for 1987-88. SCT has identified the priority projects -- which has meant a reduction in the number of works in progress -- in order to be able to channel sufficient funds to complete some works and generate benefits as soon as possible. In highways, maintenance budgets have obtained substantial increases. The amount of deferred maintenance and the declining modernization and construction budgets had made maintenance budget levels of the peso few years dangerously inadequate. Similarly, railway track renewal, bridge rehabilitation and locomotive rehabilitation modernization have been given high priority. Investments in ports during 1987-88 are directed at consolidation (of works in progress) and/or rehabilitation of ports at Manzanillo, Progreso, Veracruz, Guaymas and Tampico Altamira. In air transport, priority projects include airports at Calima and Santa Cruz, as well as substantial investment by the airlines in new equipment (requiring no federal transfers). Again SCT will need to reduce the number of works in progress, including possibly halting ongoing works, in order to be able to channel sufficient funds to complete some works and generate benefits as soon as possible. The railway new infrastructure and electrification works should be reviewed to determine if extended implementation called for under present budgets threatens economic feasibility suggesting a possible shutdown and postponement of works. Railway track renewal and bridge rehabilitation should maintain a high priority as should locomotive rehabilitation. In highways, maintenance budgets require substantial increases. The amount of deferred maintenance and the declining modernization and construction budgets make present maintenance budget levels dangerously inadequate. Lastly, port investment remains without a coordinated plan. Investments will need to be tied to specific works and equipment which are essential to maintaining trade and supporting an economic recovery.

23. Investment in communications amounted to about 5% of total public investment during 1983-1985 (at about US\$550 million annually), a little higher than its 4% share during the previous sexenio.

24. Agriculture has performed better than the rest of the economy during the crisis years 1981-84. The recent high growth rates of output of basic crops could be attributed, at least in part, to the producer pricing policies of the Government which have raised support prices to approximately

international levels. In 1985, Mexico's agricultural production continued to improve as timely rains and near-capacity water levels in storage reservoirs enabled increased output of grains, oilseed, and pulses. Although real producer prices deteriorated for some grains and oilseeds, prices for the major staples were maintained. Consumer prices, having been historically heavily subsidized, have increased as subsidies to CONASUPO were reduced. Important steps have also been taken to privatize agricultural trade. Private traders have been allowed to buy directly from foreign suppliers for all commodities except for milk powder and dry beans which remain largely under the import control of CONASUPO. Nevertheless, import quotas remain. Import levels of major commodities are determined by purchasing committees chaired by SECOFI with representation from agriculture and private trade associations.

25. Emphasis of the present administration in public investments and expenditures has also changed in recent years. Instead of supporting primarily large scale irrigation projects, priority has been given to improving productivity and yield, especially in rainfed areas. This has directed more attention to research and extension, seed multiplication and improving the efficiency of existing infrastructure through better maintenance. Since expenditure and investment budgets are severely constrained, more emphasis has been given to cost sharing with municipalities and farmers for operation and maintenance of infrastructure. Although some projects have been curtailed or stopped, further prioritization in the public expenditure and investment budget is necessary. Priority must be given to timely completion of ongoing viable projects and to the promotion of investments to support expansion of agricultural exports. Continued support must be directed at decentralizing control of investments and expenditures to states and municipalities. Finally, availability and realistic pricing of agricultural credit will also have important bearing on the medium term prospects for continued agricultural growth.

26. It is rather difficult to provide meaningful figures for public investment in agriculture. The investment figures provided in Tables 3 and 4 are for "agriculture and rural development": they include the investment budget for SARH (Ministry of Agriculture and Water Works), which may include expenditures on water systems for urban areas, as well as expenditures on rural roads, rural potable water, etc., which come under a budgetary allocation of "rural development" and are not in the SARH budget. With this wider definition, investment in agriculture and rural development has amounted to 11.7% of total public investment during 1983-1985, compared to an average of over 15% between 1970 and 1982. Since 1983, share of SARH investment has fallen from 2/3 of this total to about 1/2 -- a sign of decentralization in the control of investments in the agriculture sector, as well as the reduced emphasis on large scale irrigation projects.

27. Total expenditure in public health and welfare stood at 1.8% of GDP in 1984 --with about 10% of this total in capital expenditure -- and will remain under 2% of GDP in the medium-term in view of the less than favorable economic and fiscal prospects and progressively larger demands of pension-related obligations of IMSS. Equity and efficiency goals must, therefore, be pursued in the context of limited additional financing, and will need to take advantage of the potential for improving capacity utilization in existing services. SSA (Secretaria de Salud y Asistencia) has reduced the size of planned investments on physical infrastructure and

reoriented capital expenditures towards improving and expanding basic health care. These measures should help increase cost effectiveness and reduce the impact of investments on incremental operating costs. The ongoing decentralization program provides a suitable framework for increasing efficiency and the responsiveness of health services to health needs. It must, however, be pursued cautiously, and in parallel with management improvement to avoid major disruptions in service delivery. The COPLAMAR basic health care model offers a good basis on which to develop a cost effective basic health care package to poor rural and peri-urban areas. Ongoing reforms are likely to increase the sector's efficiency and absorptive capacity, paving the way for future increases in capital and operating allocations which are needed to avoid a major deterioration in the health status of Mexicans.

28. In the education sector, the main priorities are meeting rising demand for schooling, improving quality and efficiency, addressing inequities in access to schooling, raising worker productivity through vocational and on-the-job training, and decentralizing administration of the basic school system. Addressing all these priorities during a period of declining resources -- education expenditure fell from 5.5% of GDP in 1982 to under 3.8% of GDP in 1985 -- will be difficult. Projections for 1986-88 indicate that education spending will remain below 4% of GDP, with about 8% of the total in capital expenditures. The absence of a specific investment/expenditure plan makes difficult an assessment of program priorities and investment alternatives. Nevertheless, the stated government education objectives combined with the current fiscal situation do suggest some recommended policy priorities for the next few years. These priorities are: (a) continue to meet enrollment demands, particularly at the primary school level. Investments in primary education both yield high economic returns (relative to other types of education) and reduce inequities between income groups and geographic areas; (b) improve school quality through selective investments, especially in primary education. Two factors that could contribute to the quality of education would be increase in the share of overall expenditures directed to instructional materials and programs aimed at upgrading of teacher qualifications; (c) improve equity by reducing public subsidies to relatively affluent students in upper secondary and higher education and using the public savings to increase spending and educational quality in primary education; and (d) reduce regional disparities through increased spending in less developed areas.

29. In urban transport, the main problems are: (i) high concentration of investment in the Federal District -- virtually all of public expenditure for urban transport occurs within the Federal District; (ii) high operating subsidies -- there is virtually no attempt to recover costs from users -- fares provide only 3% of operating costs; (iii) distribution among modes of transport -- almost half of expenditures are committed to the subway system, with over one third of the total going to system expansion; (iv) size of the future investment program -- on an annual basis, roughly double the 1985 levels; and (v) adequacy of the institutional structure -- although there is a high level of expertise in the design and quality of transport projects, planning and prioritizing projects is less well developed and more coordination is needed among agencies responsible for the different modes of transport.

30. There has been a substantial financial commitment to build and operate Mexico's urban transport systems: an estimated total expenditure of some Mex\$200 billion in 1985 (about US\$800 million). Nearly all of the money is slated for the Mexico City region (92%), a very large portion of which is used to subsidize operating expenses. In the Federal District, over 1/2 of all expenditures are committed to the subway system, with over 1/3 of the total going for system expansion. The proposed investment program for the period 1986-1988 for Mexico City's urban transport system is, on an annual basis, roughly double the 1985 levels. These amounts are excessive: not only they imply huge financing requirements, but also they would encourage the continuation of excessive growth in the capital region and further expansion of the system would obligate future administrations to commit larger and larger sums to finance growing operating deficits. In this regard, the extension of the Mexico City metro system in particular, warrants careful review.

31. During 1970-1983, water supply service levels rose from 49% of the population to 66%. Sewerage and waste disposal service levels increased from 24% to 43% of the population during the same period. The goal is to reach some 10 million new users with water and sewerage services by 1988. Attainment of these goals will be costly and require improvements in two key areas: pricing and institutional policies. The NDP (National Development Plan) called for pricing policies that reflect the real cost of water and would permit the sector to become more financially self-reliant. In practice, however, continued availability and indiscriminate use of extensive grant financing have not only discouraged the intentions reflected in the NDP, but also encouraged grandiose and not always sound investment choices. The absence of a cohesive framework for sector planning and consequent lack of consolidated investment plans has resulted in the emphasis on development of new water resources. In this regard, there is insufficient coordination with some state and local programs leading to duplication of efforts, waste, and low priority investments. Alternatives such as reduction of water losses and improved efficiency among sector operating entities have not been considered. Estimates for investment required (annually) to achieve the water and sewerage goals would be over US\$700 million for 1986-1988 as compared to an average of US\$400 million annually during 1978-1982 (if the Federal District is excluded, these estimates would fall to US\$250-300 million). As it might prove difficult to obtain even this level of resources, a thorough analysis of ongoing projects -- to eliminate/postpone/redesign uneconomic ones -- is essential. Further, more efficient use of existing infrastructure -- through rehabilitation and improved maintenance procedures -- should be emphasized.

32. Much of the investment in the Federal District (DDF) has been in the areas of urban transport and water and sewerage. If these sectors were to keep their historical shares in total DDF investment, the investments proposed by the corresponding sectoral agencies imply an unrealistically high level of investment in the DDF during the 1986-88 period -- on average, roughly 60% higher than the investment levels of 1977-82. The expenditure plans for DDF will have to be substantially scaled down if total investment in the DDF are to be held to sustainable levels. In fact, the projections are for reduced level of investments for the DDF (investment plans for 1986 amount to US\$780 million, compared to over 1.2-1.3 billion annually during

1983-1984) and no substantial shift in sectoral emphasis. The expectation is for completion of existing projects, rather than initiation of major new projects over the period 1986-1988.

33. Housing programs will have a central role in policies aimed at economic recovery with rapid employment growth. The share of public investment in housing will be close to 2% of GDP annually during the 1986-1988 period. However, most of this investment is funded through the banking system and payroll contributions; resources directly drawn from the federal budget are about 6% of the total. Main issues in public housing are the following: (i) the average rate of capital recovery is very low: 40% during the period 1977-1982; (ii) the proliferation of activities and variety of credit terms and conditions applied by existing housing institutions challenge the stated objective of controlling and budgeting the subsidy element involved in preferential credit and in making it more transparent; and (iii) most of the programs remain beyond the reach of the poorest and the neediest population.

Summing Up

34. Overall, public investment during the next few years will have to recover from its 1986 low -- expected to be as little as 5-5.5% of GDP (roughly equivalent to US\$8-9 billion). Real increases will be required especially in the areas of oil and gas, and (non-urban) transport. Increased investment in power and agriculture do not warrant the same urgency: in power, because demand for electricity could be substantially lower than currently projected; and in agriculture, because there is now less emphasis on (capital intensive) large scale irrigation projects. Future investments in the industry sector, fertilizer and steel subsectors in particular, will for the most part be directed towards restructuring/rationalization. It is in these sectors where there is also an urgent need for a clear definition of the respective roles for the public and private sectors. Finally, a crucial area is the Federal District where emphasis should be on better cost recovery, more efficient use of existing infrastructure through rehabilitation and improved maintenance: here, continued expansion of the Mexico City Metro also requires careful review.

35. There has already been a noticeable change in the Government's strategy for Mexico's economic development. Instead of continuing an economic strategy based on large Government participation in the economy, together with deficit financing and high levels of protection, the authorities have indicated their intention to create more favorable conditions for private investments, to reduce the size of the public sector, and to enhance the competitiveness of the industrial sector by opening up the economy to foreign trade. Furthermore, the authorities have started a process of restructuring and rationalization in various sectors --in particular, in the areas of industry and agriculture. In these circumstances it should be possible to achieve the growth rates targetted for 1987-1988 (3% and 4%, respectively) with investment levels well below the unusually high levels experienced during 1977-1982. Based on present plans for 1987, capital outlays would rise by some 15% in real terms, bringing public investment to about 6% of GDP. In order to make room for this rise in public

investment, the real growth in current expenditure needs to be kept to a minimum and will have to be somewhat lower than the expected growth of real GDP.

Management of Public Investment

36. With respect to the resource allocation and budgetary process in the public sector, some of the problem areas that can be strengthened are the following:

37. In the budgetary process, it would be useful to introduce a multi-year framework that would include uniform macro-economic guidelines (that spell out resource prospects), realistic expenditure ceilings for the sectors and a "core program" of projects. For example, a multi-year rolling investment program could replace the present single-year budgeting system. In such a system, expenditures for the first year only are approved, while second and third year estimates serve to indicate likely spending requirements. This allows prior financial planning so that overcommitment to projects is avoided and recurrent expenditure implications are taken into account. Definition of a "core program" of projects could help separate priority projects -- that could be fully funded each year in line with the amounts needed for efficient implementation -- from "reserve" projects that would go ahead if and when additional resources become available. Such a system of priorities could help avoid across-the-board cuts of funding for ongoing projects at times of budgetary stringency.

38. With respect to parastatal management, the system of regulation and detailed budgetary control, appears to create severe constraints for parastatal operations. In spite of existing over-abundant reporting requirements, performance is not adequately followed-up. Among the possible measures that could be taken to improve the operations of the parastatals, one consideration would involve providing more flexibility and autonomy in the management of enterprises. Parastatals could be managed principally through controls over performance and financing, rather than through the budget or ex-ante approval of purchases and salaries. This would require elaboration of a system of performance evaluation for the companies and their managers. One approach would be through gradual generalization of the restructuring agreements (physical and financial) between the federal government and the parastatals -- similar to the agreement on railroads.

39. Recently, the Government took a major initiative in setting the stage for increased autonomy, efficiency and accountability in the public sector enterprises. On May 15, the Government put into effect a new law on parastatal entities which, if implemented fully, could bring about a major reform in state enterprise management in Mexico.

40. Project preparation and evaluation should be improved and the information so generated be geared to budget needs. For this purpose, the SPP could set norms for technical, financial and economic appraisal and determine the basic parameters to be used for economic analysis. In this regard, existing project evaluation units (such as the ones in SPP, Semip)

could be strengthened through broad training programs. Also helpful would be the establishment of a system to monitor and overlook the implementation of projects.

41. The recent trade liberalization measures present a unique opportunity to improve the quality and cost effectiveness of investments in the public sector. To take full advantage of the new emphasis on international competitiveness and promotion of non-petroleum exports, it would now be necessary to modify accordingly the procurement procedures of government agencies. To the extent that these agencies are permitted to purchase equipment internationally, on the basis of price and quality considerations, they will be able to install less expensive and more appropriate equipment. This, in turn, would permit them to lower the domestic price of the goods and services that they provide and to reduce the need for subsidies.

42. The share of investment projects planned and carried out by the states -- frequently financed from Federal revenues -- is growing. Also, the states are playing an increasing role in regional planning and inter-agency coordination concerning local investments of the Federal Government. However, the quality of planning and budgeting for these local investments is uneven: quite advanced in a few states, but weak in others. Thus, it is important to improve the coordination of investment plans between states and the Federal Government to avoid duplication of efforts and the possible allocation of resources to low priority projects. In this regard, the revenue sharing and transfers could be linked to specific measures to be taken by the states for improved investment management.

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(In Thousands)

Population	1950	1960	1970	1980 a/	1985 a/	Rate of Population Growth		
						1950-1970	1970-1980	1980-1985
Total	27378	37073	51178	68855	77838	89.94	36.11	11.89
Male	13716	18557	25824	35087	39182	88.82	36.87	11.55
Female	13662	18516	25352	34558	38788	87.07	35.25	12.23
Age Structure (% of total)								
0-4	17.51	18.85	18.48	15.23	13.33			
5-9	19.74	18.08	15.33	15.48	13.31			
10-14	11.87	11.80	12.85	13.55	13.89			
15-19	10.33	9.75	10.57	11.23	11.88			
20-24	8.37	8.30	8.21	8.18	8.83			
25-29	7.48	7.11	6.82	7.28	8.02			
30-34	5.83	5.74	5.83	6.02	6.37			
35-39	5.42	5.10	4.82	4.87	5.28			
40-44	4.80	3.95	3.87	3.88	4.28			
45-49	3.84	3.82	3.41	3.32	3.48			
50-54	3.18	3.01	2.58	2.75	2.88			
55-59	2.52	2.50	2.31	2.21	2.34			
60-64	1.88	1.91	1.83	1.65	1.84			
65 +	3.37	3.38	3.50	3.32	3.48			
0-14	43.12	45.82	46.88	44.23	40.33			
15-64	53.51	51.00	48.84	52.45	58.22			
65 +	3.37	3.38	3.50	3.32	3.48			

a/ Estimations of Population.

SOURCE: Instituto Nacional de Estadística e Informática, "Proyecciones de la Población de México y de las Entidades Federativas: 1980-2010"; Centro Latinoamericano de Demografía.

TABLE 1.1.2 SELECTED REGIONAL DATA, 1980

	Surface (Th. Km ²)	Population 1980 (% share)	Population Average annual rate of growth 1970-1980 (%)	Population Economically Active (share over the state pop.)	Gross Domestic Product (bill. \$Max) 1980	Average Density Inhabitants per km ²
Total	1958.20	100	3.32	53.8	4277.00	34.1
Agascalientes	5.47	0.78	4.38	51.9	28.13	84.9
Baja California	88.82	1.78	3.07	53.1	88.36	18.8
Baja California Sur	73.48	0.32	5.33	55.8	17.38	2.9
Campeche	80.81	0.83	5.27	60.0	20.38	8.3
Cochula	148.88	2.33	3.40	54.2	113.75	10.4
Colima	8.18	0.82	3.88	47.8	20.12	88.7
Chiapas	74.21	3.12	2.88	52.5	115.89	28.1
Chihuahua	244.84	3.00	2.20	52.9	120.88	8.2
Federal District	1.48	13.21	2.54	56.4	1078.83	5971.0
Durango	123.12	1.77	2.33	53.4	54.48	9.6
Guanajuato	30.49	4.50	2.88	54.2	124.80	88.8
Guerrero	84.28	3.18	2.82	55.3	71.31	32.8
Hidalgo	20.81	2.31	2.83	56.0	64.88	74.3
Jalisco	80.84	8.54	2.88	53.4	280.80	54.1
Mexico	21.38	11.32	7.03	54.8	487.74	354.2
Michoacan	88.83	4.28	2.13	50.8	101.32	47.9
Morelos	4.88	1.42	4.38	50.8	48.22	181.3
Nayarit	28.88	1.08	2.83	49.0	32.88	28.9
Nuevo Leon	84.82	3.78	4.02	51.9	252.38	38.7
Oaxaca	83.85	3.54	1.83	58.9	60.12	25.2
Puebla	33.80	5.01	2.83	53.5	138.88	88.7
Queretaro	11.45	1.11	4.30	50.8	40.47	84.8
Quintana Roo	50.21	0.34	9.87	55.2	17.24	4.5
San Luis Potosi	83.07	2.50	2.70	50.9	62.19	28.5
Sinaloa	58.33	2.77	3.88	52.0	89.27	31.7
Sonora	182.08	2.28	3.28	53.2	104.84	8.3
Tabasco	25.27	1.58	3.30	51.6	189.84	42.1
Tamaulipas	79.38	2.88	2.82	53.6	128.08	24.2
Tlaxcala	4.02	0.83	2.84	49.4	19.55	138.6
Veracruz	71.70	8.08	3.51	54.5	248.82	75.1
Yucatan	38.40	1.58	3.44	52.7	48.58	27.7
Zacatecos	73.25	1.70	1.80	47.0	34.11	15.5
Territorial Waters					14.53	

SOURCE: Instituto Nacional de Estadística e Informática, "Anuario de Estadísticas Estatales 1985".

TABLE 1.2.1 EMPLOYMENT BY SECTOR 1871-1984 a/
 (In thousands of paid jobs, annual average)

	1871	1872	1873	1874	1875	1876	1877	1878	1879	1880	1881	1882	1883	1884	Annual Rate of Growth b/		
															1871-1879	1877-1882	1883-1884
Total	13322	13702	14441	14947	15299	15556	16238	16894	17676	18758	20043	19893	19572	20032	2.91	3.42	2.69
Agriculture, Forestry and Fishing	4824	4350	4789	4503	4266	4472	4397	4351	4737	4301	5189	5335	5249	5342	-0.53	0.43	1.65
Mining	165	162	174	165	184	193	197	263	220	240	253	270	267	271	3.72	6.39	1.50
Manufacturing	1772	1801	1825	1928	2002	2048	2051	2133	2291	2417	2643	2483	2310	2331	2.43	3.25	2.21
Construction	782	820	1018	1070	1151	1209	1163	1221	1497	1927	1981	1785	1421	1459	7.17	7.40	3.31
Electricity	40	42	44	46	48	52	55	55	56	63	69	69	69	69	4.47	3.09	3.09
Trade, Restaurants and Hotels	2053	2104	2157	2202	2267	2320	2345	2388	2534	2657	2762	2701	2705	2744	1.01	2.39	1.44
Transport, Storage and Communication	475	507	538	563	592	642	684	712	760	827	893	893	893	1023	5.15	9.94	3.02
Finance, Insurance and Real Estate Services	238	249	257	270	282	295	309	327	351	382	425	454	498	490	3.94	8.82	3.00
Community, Social and Personal Services	3173	3387	3577	3805	4104	4350	4557	4831	5208	5691	5527	5973	6101	6335	5.40	4.91	3.84

a/ The data in this table do not correspond to the category of Economically Active Population, because in each major group of activity the average number of paid occupations is recorded for that group, irrespective of whether a given person has more than one job in the same or in a different occupational category, or in the same or a different major group of activity.
 b/ Calculated using the formulae $(\text{value } t - \text{value } t-1) / \text{value } t-1 \times 100$
 NA= Not Available

SOURCE: National Institute of Statistics, Geography and Information, "Mexico System of National Accounts", several issues.

TABLE 1.2.2 AVERAGE ANNUAL EARNINGS 1971-1994
[Thousands pesos/person 1970=100]

Year	Total	Agriculture, Forestry and Fishing	Mining	Manufacturing	Construction	Electricity	Trade, Restaurants and Hotels	Transport, Storage and Communication	Finance, Insurance and Real Estate Services	Community, Social and Personal Services
1971	38.4	10.5	32.1	74.9	32.9	179.5	41.9	37.9	35.1	45.9
1972	42.9	11.4	33.2	79.9	33.2	209.9	39.4	45.4	35.2	51.9
1973	48.9	12.1	32.9	83.9	34.4	232.4	45.5	51.1	35.7	51.9
1974	49.9	12.7	101.2	91.9	75.9	274.9	49.7	82.9	104.9	59.9
1975	53.9	12.9	103.9	91.4	73.9	282.1	49.4	82.8	107.9	59.9
1976	52.9	12.9	111.2	93.9	79.9	288.1	50.5	81.4	114.9	59.9
1977	55.0	12.3	109.9	92.5	79.1	276.7	47.9	78.4	112.9	59.9
1978	57.3	11.9	109.2	91.1	71.7	228.9	35.4	77.9	114.4	59.9
1979	59.9	9.7	109.2	90.9	69.1	199.7	33.3	69.9	114.4	59.9
1980	59.9	9.4	109.2	90.9	69.1	199.7	33.3	69.9	114.4	59.9
1981	59.9	9.4	109.2	90.9	69.1	199.7	33.3	69.9	114.4	59.9
1982	59.9	9.4	109.2	90.9	69.1	199.7	33.3	69.9	114.4	59.9
1983	59.9	9.4	109.2	90.9	69.1	199.7	33.3	69.9	114.4	59.9
1984	59.9	9.4	109.2	90.9	69.1	199.7	33.3	69.9	114.4	59.9
1971-1976	42.9	11.4	32.9	79.9	33.2	179.5	39.4	45.4	35.2	51.9
1977-1982	48.9	12.1	33.2	83.9	34.4	209.9	45.5	51.1	35.7	51.9
1983-1984	49.9	12.7	101.2	91.9	75.9	274.9	49.7	82.9	104.9	59.9
Annual Rate of Growth	1.21	2.34	2.12	4.43	-0.75	9.91	-1.15	-1.07	1.47	1.59

a/ Calculated using the formula $(\text{value } t - x) / x - 1 \times 100$

NA= Not Available
SOURCE: National Institute of Statistics, Geography and Information, "Mexico: System of National Accounts", several issues.

TABLE 1.2.3 PUBLIC SECTOR EMPLOYMENT BY SECTOR 1980-1994
 (In thousands)

	1980	1981	1982	1983	1984	Annual rate of growth a/ 1980-1994
	_____	_____	_____	_____	_____	
Total	3,203,744	3,502,413	3,709,066	4,006,166	4,226,092	7.17
Agriculture, Forestry, Fishing	68,849	69,812	70,826	57,991	64,546	-1.80
Mining b/	14,847	15,838	15,324	17,413	17,829	5.03
Manufacturing	179,911	208,763	214,987	209,804	218,086	5.09
Construction	NA	NA	NA	NA	NA	NA
Electricity	62,891	65,891	66,190	65,793	69,191	2.04
Commerce, Restaurant and Hotels	24,890	30,674	32,034	32,941	34,098	8.03
Transport, Storage and Communication	225,646	230,421	231,669	288,823	278,091	5.17
Financial Services, Insurance and Realty c/	51,510	64,801	107,098	226,874	236,919	48.24
Social, Personal and Community Services	2,473,593	2,709,772	2,849,957	2,999,243	3,183,127	8.51
Oil Industry	102,017	112,891	121,033	130,473	127,582	5.76

a/ The average rate of growth was calculated using the formula: $(\text{value } t / \text{value } t-x) \text{ power } 1/x - 1 \times 100$

b/ Excludes oil industry

c/ Since September 1982 includes the nationalized banks.

NA= Not Available

SOURCES: National Institute of Statistics, Geography and Information, "Mexico: National Account System", several issues.

TABLE 1.2.4 AVERAGE ANNUAL EARNINGS OF THE PUBLIC SECTOR 1980-1984 a/
(Thousands pesos/person 1976=100)

	1980	1981	1982	1983	1984	Annual rate of growth b/ 1980-1984
Total	108.2	118.4	112.6	78.6	75.2	-8.71
Agriculture, Forestry, Fishing	34.7	38.3	33.0	25.7	24.2	-8.56
Mining c/	123.7	137.2	134.0	68.3	63.4	-6.78
Manufacturing	118.0	138.2	132.7	67.2	64.8	-8.13
Construction	NA	NA	NA	NA	NA	NA
Electricity	252.8	291.8	274.8	228.0	188.2	-5.78
Commerce, Restaurant and Hotels	131.4	128.7	118.5	60.8	68.8	-8.55
Transport, Storage and Communication	108.6	123.4	128.8	88.1	83.5	-3.87
Financial Services, Insurance and Realty d/	180.7	180.2	203.8	123.2	120.2	-10.88
Social, Personal and Community Services	88.4	108.2	100.3	68.4	65.5	-8.91
Oil Industry	214.1	218.8	203.7	137.8	131.0	-11.58
Average Annual Earnings	55.0	57.3	55.8	41.1	38.1	-8.17

a/ Deflated by the consumer price index.

b/ The average rate of growth was calculated using the formula: $[(\text{value } t / \text{value } t-x) \text{ power } 1/x - 1] \times 100$

c/ Excludes oil industry.

d/ Since September 1982 includes the nationalized banks.

NA= Not Available.

SOURCE: National Institute of Statistics, Geography and Information, "Mexico: National Account System", several issues.

TABLE 1.3 SELECTED WAGE DATA

	Consumer Price Index	Minimum Urban Wage			Salary Index in Manufacturing Sector Averages		Index of Salary and Benefits in the Manufacturing Sector Averages	
		Pesos per day	Nominal Index	Real Index a/	Nominal Index	Real Index a/	Nominal Index	Real Index a/
1975	57.0	53.0	53.4	93.7	51.8	90.9	52.9	92.6
1976	65.9	68.5	68.8	103.9	68.7	100.6	68.3	99.7
1977	85.1	87.6	88.1	103.6	87.5	102.8	88.8	101.6
1978	100.0	98.4	100.0	100.0	100.0	100.0	100.0	100.0
1979	118.2	116.0	115.7	98.0	116.3	98.3	116.5	98.3
1980	149.3	138.6	135.9	91.3	140.6	94.0	142.9	85.3
1981	191.1	177.8	176.9	92.8	182.0	95.1	189.3	98.8
1982	303.6	249.7	248.4	83.9	292.5	97.4	303.2	100.0
1983	612.9	419.3	417.1	68.8	433.4	70.8	473.3	78.9
1984	1014.1	648.7	643.3	63.7	694.7	67.8	734.4	71.9
1985	1599.7	1006.3	1001.0	63.0	1112.3	68.9	1172.3	72.6

a/ Deflated by the national consumer price index, base 1978=100.

SOURCE: BANK OF MEXICO

TABLE 1.4 UNEMPLOYMENT RATES 1981-1988
(Percentage of Labor Force)

	Mexico			Guadaluajara			Monterrey		
	Open	Hidden a/	Total	Open	Hidden	Total	Open	Hidden	Total
1981 II quarter	3.8	2.0	5.8	5.8	2.9	8.1	4.8	0.8	5.8
IV quarter	3.8	1.3	4.8	5.5	4.0	8.5	3.4	0.8	4.2
1982 II quarter	3.9	1.5	5.4	5.2	3.1	8.3	4.7	0.8	5.5
IV quarter	4.1	1.7	5.8	5.1	2.8	7.7	4.5	1.5	8.0
1983 II quarter	5.5	2.2	7.7	8.1	5.1	13.2	8.8	3.8	13.6
IV quarter	8.9	3.5	9.8	8.7	4.8	12.6	8.1	3.2	12.3
1984 II quarter	5.3	2.5	7.8	5.8	3.7	9.5	7.0	2.7	9.7
IV quarter	6.2	3.7	9.9	5.7	2.8	8.3	6.2	3.4	9.8
1985 II quarter	4.3	1.5	5.8	3.5	1.1	4.8	5.1	1.5	6.6
IV quarter	4.4	2.7	7.1	2.4	6.5	8.9	4.0	1.8	5.8
1988 January	4.8	1.8	6.4	2.5	8.0	11.5	5.7	1.0	6.7
February	4.8	1.8	6.4	2.7	5.1	7.8	4.8	1.4	6.2
March	5.2	1.8	6.8	2.8	3.9	6.5	4.5	0.9	6.4
April	4.8	1.8	6.2	2.8	5.8	8.6	5.0	1.3	6.3

a/ Defined as the ratio between inactives willing to work and total labor force.

Sources: National Institute of Statistics, "Household Surveys".

TABLE 1.5 REAL PER CAPITA OUTLAYS AND GROWTH RATES IN SOCIAL DEVELOPMENT 1991-1994
(In 1970 pesos)

	Total Expenditures in Social Development a/			Expenditures in Public Education			Expenditures in Health Care b/			Expenditures in Social Security a/		
	Total	Per capita	Growth Rate	Total	Per capita	Growth Rate	Total	Per capita	Growth Rate	Total	Per capita	Growth Rate
1991	70,739.4	932.1		22,992.7	322.1		3,549.9	49.7		28,057.7	389.5	
1992	73,199.5	1,002.7	1.0	23,797.9	326.0	1.2	3,629.3	52.4	5.4	27,209.2	372.7	(5.3)
1993	52,648.3	705.7	(29.6)	15,180.7	209.5	(37.6)	2,960.0	35.7	(31.9)	22,094.6	298.0	(20.6)
1994	54,078.3	709.8	0.4	16,394.5	214.9	5.6	2,810.5	36.9	3.1	21,394.1	279.8	(5.5)

a/ It includes Public Education, Health Care and Social Security plus other items not showed in the table.

b/ It does not include ISSSTE and IMSS.

ISSSTE: Instituto Mexicano del Seguro Social.

IMSS: Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado.

SOURCE: Jose Lopez Portillo, "Sexto Informe de Gobierno", Mexico, 1992.

Miguel De la Madrid, "Primer, Segundo y tercer Informe de Gobierno", 1983, 1984, 1985.

TABLE 1.0 PHYSICAL AND HUMAN RESOURCES, AND COVERAGE OF HEALTH SERVICES BY INSTITUTIONS: 1981-1984

	1981	1982	1983	1984 c/
Hospital Beds a/				
Health Ministry	NA	0.88	0.74	NA
IMSS	1.1	1.08	1.05	0.88
ISSSTE	1.072	1.015	1.014	1.025
Doctors a/				
Health Ministry	NA	0.31	0.32	NA
IMSS	1.21	1.23	1.18	1.08
ISSSTE	1.588	1.72	1.688	1.794
Coverage				
Health Ministry b/ (millions of persons)	38.87	41.57	39.54	NA
IMSS (millions of persons)	25.5	27.1	28.4	30.2
ISSSTE (townships with service)	815	842	848	883

a/ Per 1,000 persons serviced by the corresponding institution.

b/ Population living in areas covered by medical units of the Health Ministry.

c/ Preliminary.

IMSS: Instituto Mexicano del Seguro Social

ISSSTE: Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado.

NA= Not Available

SOURCE: Miguel de la Madrid, "Tercer Informe de Gobierno", Mexico 1985., Anexos: Sector Salud y Seguridad Social.

**TABLE 1.7 EVOLUTION OF CONTROLLED PRICES FOR BASIC FOODSTUFFS:
1982-1988 a/
(in percentages)**

	Dec. 1982- Dec. 1983		Dec. 1982- May. 1986	
	Official price	Observed price	Official price	Observed price
Tortilla	0.0	NA	418.1	NA
Bread	0.0	NA	1800.0	NA
Beans	0.0	50.8	775.9	NA
Rice	118.1	104.3	577.4	NA
Cooking Oil	46.4	46.4	602.4	NA
Eggs	88.4	72.2	581.8	NA
Beef	28.0	70.0	460.0	NA
Milk (pasteurized)	68.9	132.2	544.4	NA
Minimum Wage	43.7		369.3	
CPI	80.8		512.5 b/	

NA=Not Available

a/ Rate of change over the period.

b/ Preliminary

SOURCE: Mario Luegig, "Economic Crisis and Living Standards in Mexico: 1982-1985", May 1986.

**TABLE 1.8 SELECTED INDICATORS OF THE MEXICAN ECONOMY
1980-1985**

	1980	1981	1982	1983	1984	1985
EDP per capita (1978 Max 0)	12131.7	12754.8	12380.8	11418.8	11559.1	11608.5
Disposable Income per capita a/ (1978 Max 0)	11145.1	11624.8	11021.8	10108.8	10232.7	NA
Consumption per capita (1978 Max 0)	8279.0	8855.8	8524.8	7890.1	7898.4	NA
Labor Income/GDP (Shares)	0.38	0.37	0.38	0.29	0.28	NA
Labor Income/Disposable Y (Shares)	0.39	0.41	0.4	0.32	0.31	NA
Real Wages (Index 1978=100)						
Minimum Wage	91.3	92.8	83.8	88.8	83.7	83.0
Manufacturing Wage	84.0	85.1	97.4	70.8	87.8	88.9

NA= Not Available

a/ Deflated by the GDP deflator.

SOURCE: National Institute of Statistics, Geography and Information. "Mexico: System of National Accounts", several issues. Population is taken from Agenda Estadística 1985.

TABLE 2.1.1 GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN 1975-1985
(In billions of current pesos)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Agriculture, Forestry, Fishery	123.1	146.2	194.7	239.6	281.3	357.1	477.5	693.3	1358.9	2478.8	4013.2
Mining (incl. oil)	31.7	34.8	62.4	79.5	131.6	291.4	369.5	934.3	2047.4	2888.5	4335.6
Manufacturing	256.7	316.2	440.8	551.0	714.6	985.0	1311.5	2000.8	3870.6	6857.2	11115.5
Construction	65.8	85.3	104.3	139.4	194.1	276.2	409.3	589.8	878.3	1433.3	2287.6
Electricity	9.8	13.7	21.8	24.5	31.2	42.0	52.4	77.3	155.4	276.6	413.8
Commerce	277.0	338.1	443.8	560.4	743.4	999.6	1341.2	2146.4	3821.8	6548.6	10517.1
Transport and Communication	62.6	82.4	113.8	150.4	199.7	279.1	388.8	604.4	1138.6	2003.5	3053.3
Financial Services	104.3	129.6	162.9	208.7	259.7	336.9	470.3	710.5	1195.7	1891.7	3004.1
Other Services	168.9	224.7	302.8	384.0	511.9	709.2	1033.9	1660.3	2675.1	4370.5	6848.1
Gross Domestic Product	1099.9	1371.0	1849.3	2337.5	3067.5	4276.5	5874.4	9417.1	17141.8	28748.7	45588.5

SOURCE: National Institute of Statistics, Geography and Information. " Mexico: System of National Accounts", several issues.

TABLE 2.1.2 GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN 1976-1985
(In billions of 1970 pesos)

	1976	1976	1977	1978	1978	1980	1981	1982	1983	1984	1985
Agriculture, Forestry, Fishery	62.7	63.9	66.1	72.2	70.7	75.7	80.3	79.8	82.1	84.1	86.0
Mining (incl. oil)	15.0	15.8	17.1	18.5	22.4	27.4	31.8	34.5	33.8	34.2	34.5
Manufacturing	148.0	155.5	161.0	176.8	185.8	209.7	224.3	217.9	202.0	211.7	224.0
Construction	32.8	34.9	32.5	39.5	41.3	48.4	51.8	49.3	40.4	41.8	42.8
Electricity	9.2	9.2	9.8	10.7	11.8	12.6	13.8	14.8	14.7	15.7	16.8
Commerce	158.0	169.1	165.9	179.0	200.0	216.2	234.5	230.0	207.0	213.2	217.2
Transport and Communication	37.9	39.8	42.5	47.8	55.2	63.0	69.7	67.1	63.8	67.9	68.8
Financial Services	68.2	69.9	71.4	74.8	78.6	82.2	83.1	83.8	80.5	83.1	85.4
Other Services	81.1	85.7	89.2	84.8	101.8	108.8	118.7	122.0	122.0	125.8	125.0
Public Administration and Defense	21.8	21.9	21.5	23.2	25.8	27.8	30.4	31.7	32.5	34.4	33.9
Gross Domestic Product	610.0	635.8	657.7	712.0	777.2	841.8	898.8	893.3	858.2	877.8	911.5
Primary Sector a/	62.7	63.9	66.1	72.2	70.7	75.7	80.3	79.8	82.1	84.1	86.0
Secondary Sector b/	204.0	214.8	220.5	249.5	271.1	289.1	321.3	316.3	280.7	303.4	318.1
Tertiary Sector c/	343.2	357.5	369.8	389.2	435.4	476.2	507.0	507.7	489.4	500.1	507.4

a/ Primary Sector includes Agriculture, Forestry and Fishing.

b/ Secondary Sector includes Mining, Manufacturing, Construction and Electricity.

c/ Tertiary Sector includes Commerce, Restaurants and Hotels, Transport and Communication, Financial Services, Insurance and Real Estate, Social Personal and Community Services.

SOURCE: National Institute of Statistics, Geography and Information. " Mexico: System of National Accounts", several issues.

TABLE 2.1.9 GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN 1975-1985
(Shares over GDP based on current prices)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Agriculture, Forestry, Fishery	11.2	10.7	10.5	10.3	9.2	8.4	8.1	7.4	7.9	8.6	8.8
Mining (incl. oil)	2.9	2.5	3.4	3.4	4.3	6.8	6.3	9.8	11.9	10.0	9.5
Manufacturing	23.3	23.1	23.8	23.8	23.3	23.0	22.3	21.2	22.8	23.9	24.4
Construction	6.0	6.2	5.8	6.0	6.3	6.5	7.0	6.3	5.1	5.0	5.0
Electricity	0.9	1.0	1.2	1.0	1.0	1.0	0.9	0.9	0.9	1.0	0.9
Commerce	25.2	24.7	24.1	24.0	24.2	23.4	23.2	22.8	22.3	22.8	23.1
Transport and Communication	5.7	6.0	6.2	6.4	6.5	6.5	6.6	6.4	6.6	7.0	6.7
Financial Services	6.5	6.5	6.8	6.9	6.5	7.9	8.0	7.5	7.0	6.8	6.8
Other Services	15.4	16.4	16.4	16.4	16.7	16.6	17.6	17.8	15.8	15.2	15.0
Gross Domestic Product	<u>100.0</u>										

SOURCE: National Institute of Statistics, Geography and Information. "Mexico: System of National Accounts", several issues.

TABLE 2.1.4 GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN 1975-1986
(Implicit price index 1970=100)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Agriculture, Forestry, Fishery	188.3	231.0	265.9	331.9	397.9	471.7	594.6	689.8	1655.2	2947.4	4686.5
Mining (incl. oil)	211.3	218.9	384.9	407.7	697.5	1033.5	1169.3	2709.1	6093.5	8445.9	12567.0
Manufacturing	173.4	203.3	273.8	311.7	385.3	489.7	584.7	919.2	1916.1	3239.1	4992.3
Construction	200.6	249.7	320.9	381.9	470.0	585.3	790.2	1196.3	2174.0	3429.9	5344.9
Electricity	119.5	149.9	220.2	229.0	264.4	339.3	385.3	529.5	1057.1	1761.8	2483.1
Commerce	175.3	207.3	268.7	313.1	371.7	482.3	580.5	933.2	1848.3	3071.8	4842.1
Transport and Communication	165.2	207.0	267.8	314.6	381.8	443.0	557.8	900.7	1781.8	2650.7	4374.4
Financial Services	157.8	186.1	228.2	279.8	330.4	408.9	548.2	801.9	1321.2	2031.9	3148.0
Other Services	208.3	282.2	339.5	405.1	503.8	651.8	885.8	1380.9	2192.7	3471.4	NA
Gross Domestic Product	<u>180.3</u>	<u>215.8</u>	<u>281.2</u>	<u>329.3</u>	<u>394.7</u>	<u>508.0</u>	<u>648.4</u>	<u>1041.9</u>	<u>2032.1</u>	<u>3238.9</u>	<u>5001.5</u>

SOURCE: National Institute of Statistics, Geography and Information. " Mexico: System of National Accounts", several issues.

TABLE 2.1.5 GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN 1976-1983
(Annual rate of growth in 1970 prices)

	1976	1978	1977	1978	1979	1980	1981	1982	1983	1984	1985
Agriculture, Forestry, Fishery	2.0	1.0	7.6	6.0	-2.1	7.1	6.1	-0.6	2.6	2.4	2.3
Mining (incl. oil)	6.0	6.0	7.6	14.0	14.6	22.3	15.3	6.2	-2.6	1.6	0.6
Manufacturing	19.2	6.1	3.5	9.6	10.9	7.2	7.9	-2.9	-7.9	4.8	6.6
Construction	6.3	4.6	-5.2	12.3	13.2	12.3	11.6	-4.8	-19.1	3.5	2.4
Electricity	6.6	12.2	7.6	6.1	10.9	6.8	7.9	7.4	0.7	6.6	7.0
Commerce	13.0	3.2	1.7	7.9	11.7	6.1	6.6	-1.6	-10.0	3.0	1.6
Transport and Communication	5.0	6.0	6.9	12.5	16.5	14.1	10.6	-9.7	-4.6	6.3	2.6
Financial Services	13.5	4.1	3.6	4.6	6.4	4.6	4.7	2.6	2.1	2.9	2.6
Other Services	4.2	5.7	4.1	6.3	7.2	7.1	7.3	4.5	0.0	3.2	-0.7
Public Administration and Defense	10.9	1.4	-1.8	7.9	11.2	7.9	6.4	4.3	2.6	6.5	-1.5
Gross Domestic Product	6.1	4.2	3.4	3.3	9.2	6.3	6.6	-0.6	-5.3	3.7	2.7
Primary Sector a/	1.9	1.0	7.6	6.0	-2.1	7.1	6.1	-0.6	2.6	2.4	2.3
Secondary Sector b/	5.2	5.2	2.6	10.4	11.3	9.2	6.5	-1.6	-6.1	4.4	4.8
Tertiary Sector c/	6.6	4.2	3.2	7.4	6.6	6.0	7.9	0.1	-4.6	3.6	1.6

a/ Primary Sector includes Agriculture, Forestry and Fishing.

b/ Secondary Sector includes Mining, Manufacturing, Construction and Electricity.

c/ Tertiary Sector includes Commerce, Restaurants and Hotels, Transport and Communication, Financial Services, Insurance and Real Estate, Social Personal and Community Services.

SOURCE: National Institute of Statistics, Geography and Information, "Mexico: System of National Accounts", several issues.

TABLE 2.1.8 GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN 1976-1985
(Rate of growth of implicit prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Agriculture, Forestry, Fishery	17.8	23.8	18.1	18.9	18.8	28.1	48.1	80.5	78.1	58.9
Mining (incl. oil)	3.8	68.7	11.7	44.1	81.0	9.9	131.8	125.0	38.8	48.8
Manufacturing	17.2	34.8	18.8	17.2	28.8	24.5	57.8	108.7	88.0	63.2
Construction	24.8	28.0	18.0	23.1	28.7	32.7	51.4	81.7	57.7	55.9
Electricity	24.8	47.8	4.0	15.5	28.1	15.8	37.4	88.7	88.7	38.8
Commerce	18.2	28.8	18.5	18.7	24.4	25.5	80.8	87.8	88.4	57.8
Transport and Communication	25.3	28.3	17.5	15.0	22.5	25.8	81.5	87.8	85.8	48.2
Financial Services	19.4	21.3	22.8	18.1	24.0	33.3	48.8	84.8	53.8	55.0
Other Services	25.8	28.5	18.3	24.4	28.4	35.8	53.8	81.1	58.3	NA
<u>Gross Domestic Product</u>	<u>19.8</u>	<u>30.4</u>	<u>18.8</u>	<u>20.2</u>	<u>28.7</u>	<u>27.2</u>	<u>81.2</u>	<u>82.1</u>	<u>81.8</u>	<u>54.4</u>

SOURCE: National Institute of Statistics, Geography and Information. "Mexico: System of National Accounts", several issues.

TABLE 2.2.1 GROSS DOMESTIC PRODUCT BY EXPENDITURES 1975-1984
 (In billions of current pesos)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Gross Domestic Product	1100.0	1371.0	1649.3	2337.4	3087.6	4278.6	5874.4	8417.1	17141.7	28748.8
Exports	75.8	118.4	180.8	244.7	343.3	537.2	701.8	1838.5	3340.8	5101.8
Imports	105.8	136.9	189.0	258.0	382.0	577.8	788.1	1053.8	1817.4	2776.3
Gross Domestic Expenditures	1130.0	1389.9	1847.5	2350.7	3108.2	4317.1	6870.9	8834.5	15418.5	28423.3
Consumption	889.4	1084.3	1425.1	1788.0	2310.2	3024.3	4288.3	7283.7	11848.3	20205.5
Private	765.8	933.4	1228.1	1543.8	1975.8	2581.5	3583.8	5778.1	10358.8	17488.8
Public	113.6	150.9	197.0	244.2	334.3	442.8	684.5	1507.8	1589.3	2736.8
Fixed Investment	235.8	288.4	383.3	482.4	718.4	1032.8	1589.4	2088.8	2972.3	5183.8
Change in Stocks	25.0	17.2	59.1	58.2	77.8	189.8	183.2	-88.0	489.8	1053.2
Net Factor Income from Abroad	-17.8	-28.0	-43.0	-58.0	-77.1	-117.2	-200.2	-508.8	-1041.7	-1675.3
Gross National Product	1082.1	1342.0	1808.4	2281.4	2990.4	4159.3	5874.2	8808.2	16100.0	27073.8
Memorandum Items										
Gross Domestic Savings	230.8	288.7	424.2	538.4	757.3	1252.2	1808.1	2133.4	5195.4	8543.4
Gross National Savings	212.7	257.7	381.3	482.4	680.2	1135.0	1405.8	1824.5	4153.7	10308.8
Gross Domestic Expenditures on Domestic Goods and Services	1024.2	1254.8	1658.5	2092.7	2724.2	3739.3	5172.8	7780.8	13801.1	23848.0

SOURCE: National Institute of Statistics, Geography and Information. "Mexico: System of National Accounts", several issues.

TABLE 2.2.2 GROSS DOMESTIC PRODUCT BY EXPENDITURES 1975-1985
(In billions of 1970 pesos)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Gross Domestic Product	610.0	636.8	657.7	712.0	777.2	841.8	908.8	908.8	888.2	887.6	911.5
Exports	43.2	50.4	57.8	64.5	72.3	78.7	81.5	82.6	103.3	114.1	110.7
Imports	63.6	64.2	57.6	70.2	91.2	120.3	144.7	91.1	59.1	63.8	71.1
Gross Domestic Expenditures	630.4	648.6	657.5	717.7	728.1	865.4	872.0	802.3	808.0	837.1	871.8
Consumption	478.4	502.1	510.6	553.2	602.8	648.5	688.2	707.8	658.8	680.0	683.8
Private	425.4	444.7	453.8	480.8	534.2	574.5	618.7	623.4	578.8	581.0	603.4
Public	54.0	57.4	56.8	62.4	68.4	75.0	69.5	84.4	69.3	69.0	60.2
Fixed Investment	132.9	132.8	124.0	142.8	171.7	197.4	228.4	180.3	137.2	144.6	154.5
Change in Stocks	18.5	14.5	22.9	21.7	21.7	38.8	48.3	4.2	8.8	12.2	29.8
Terms of Trade Effect a/	2.4	4.8	0.3	2.1	8.7	25.1	45.7	48.8	8.4	2.8	NA
Gross Domestic Income	612.4	640.8	658.0	714.1	786.8	876.8	954.8	882.7	882.8	880.4	NA
Net Factor Income from Abroad	-10.8	-13.7	-13.1	-15.2	-18.4	-24.4	-38.3	-44.8	-34.2	-38.4	NA
Gross National Income	601.6	626.9	644.9	698.9	768.4	852.5	916.2	838.7	828.4	842.0	NA
Gross National Product	588.2	622.1	644.8	688.8	758.8	817.4	872.5	858.8	822.0	848.2	NA
Memorandum Items											
Gross Domestic Savings	130.8	133.7	147.1	158.8	174.8	182.3	208.8	185.0	188.3	207.8	217.8
Gross National Savings	119.8	120.0	134.0	143.8	156.2	187.8	173.3	182.0	182.1	188.2	NA
Import Capacity	48.8	55.2	58.1	68.8	82.0	111.8	127.2	141.5	108.7	118.9	NA
Gross Domestic Expenditures on Domestic Goods and Services	588.8	585.4	588.8	647.8	704.8	785.1	827.3	811.2	782.8	773.5	808.8

a/ Estimates.

SOURCE: National Institute of Statistics, Geography and Information. "Mexico: System of National Accounts", several issues.

TABLE 2.2.3 GROSS DOMESTIC PRODUCT BY EXPENDITURES 1976-1984
(Shares based on current prices)

	1976	1978	1977	1978	1979	1980	1981	1982	1983	1984
Gross Domestic Product	100.0									
Exports	8.9	8.5	10.3	10.5	11.2	12.6	11.9	17.4	19.5	17.7
Imports	9.6	9.9	10.2	11.0	12.5	13.5	13.8	11.2	9.4	9.7
Gross Domestic Expenditures	102.7	101.4	99.9	100.6	101.3	100.9	101.6	93.8	89.9	91.9
Consumption	79.0	79.1	77.1	77.0	75.3	70.7	72.7	77.3	89.7	70.3
Private	69.7	69.1	69.3	69.0	64.4	59.9	61.0	61.3	60.4	60.8
Public	10.3	11.0	10.8	10.9	10.9	10.8	11.7	16.0	9.3	9.5
Fixed Investment	21.4	21.0	19.8	21.1	23.4	24.2	25.7	22.3	17.3	18.0
Change in Stocks	2.9	1.3	3.2	2.5	2.5	4.0	3.3	-1.0	2.9	3.7
Net Factor Income from Abroad	-1.6	-2.6	-3.9	-5.1	-7.0	-10.7	-18.2	-48.3	-84.7	-152.3
Gross National Product	88.4	87.9	87.7	87.6	87.5	87.3	86.6	84.6	83.9	84.2
Memorandum Items										
Gross Domestic Savings	21.0	20.9	22.9	23.0	24.7	29.3	27.3	22.7	30.3	29.7
Gross National Savings	19.3	19.8	20.9	20.6	22.2	29.5	23.9	17.3	24.2	35.9
Gross Domestic Expenditures on Domestic Goods and Services	83.1	81.5	89.7	89.5	89.9	87.4	88.1	82.6	80.5	82.3

SOURCE: National Institute of Statistics, Geography and Information. "Mexico: System of National Accounts", several issues.

TABLE 2.4. GROSS DOMESTIC PRODUCT BY EXPENDITURES 1975-1984
 [Implicit price index 1970=100]

Year	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Gross Domestic Product	180.3	215.9	281.2	328.2	394.7	505.0	648.4	1041.9	2002.1	3239.8
Exports	175.5	231.0	320.1	378.4	474.8	700.4	880.8	1787.8	3233.8	4471.4
Imports	169.4	210.7	328.1	357.5	418.8	483.8	851.8	1158.9	3048.0	4383.7
Gross Domestic Expenditures	179.3	214.0	281.0	327.5	380.2	487.5	814.3	878.1	1813.0	3156.5
Government	181.4	212.0	279.1	325.2	383.4	488.8	810.8	1228.1	1810.3	2871.4
Private	177.7	209.8	270.2	314.5	389.8	448.8	881.1	828.5	1788.8	2858.8
Public	210.2	282.8	350.4	409.0	489.7	817.1	828.7	1789.3	1808.1	3075.2
Fixed Investment	178.1	217.8	283.0	344.8	418.4	523.3	888.7	1182.8	2188.4	3688.8
Change in Stocks	133.1	118.8	258.1	272.8	357.8	438.8	477.3	-2333.3	8880.7	8832.8
Net Factor Income from Abroad	183.4	210.7	328.1	387.5	418.8	488.3	881.8	1188.8	3048.8	4382.8
Gross National Product	188.8	218.7	280.2	327.4	384.1	508.8	880.8	1038.1	1888.8	3188.1
Transfer from Abroad	188.8	218.7	280.2	327.4	384.1	508.8	880.8	1038.1	1888.8	3188.1
Private Savings	178.8	214.4	288.4	338.0	433.7	531.2	788.3	1888.8	2888.7	4115.3
Gross National Savings	177.8	214.8	284.8	338.8	438.5	578.8	811.2	1888.7	2882.4	4081.8
Gross Domestic Expenditures on Domestic Goods and Services	180.7	214.3	278.6	323.2	388.8	488.7	825.3	888.1	1833.1	3057.3

SOURCE: National Institute of Statistics, Geography and Information, "National System of National Accounts",
 general issues.

TABLE 2.2.5 GROSS DOMESTIC PRODUCT BY EXPENDITURE 1976-1985
(Annual growth rate in 1970 prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Gross Domestic Product	4.2	3.4	8.3	9.2	8.3	8.0	-0.6	-5.3	3.7	2.7
Exports	16.7	14.7	11.8	12.1	8.1	8.3	13.8	11.8	10.5	-3.0
Imports	0.9	-10.3	21.8	29.9	21.8	20.3	-37.0	-41.7	19.8	11.8
Gross Domestic Expenditures	3.0	1.2	9.2	10.9	11.2	9.8	-7.2	-10.7	3.9	4.2
Consumption	4.7	1.7	8.3	8.9	7.8	7.7	1.2	-8.8	3.0	2.0
Private	4.5	2.0	8.2	8.8	7.5	7.3	1.1	-7.5	2.5	2.1
Public	0.3	-1.0	0.9	0.8	0.8	10.0	2.3	-1.3	0.8	1.3
Fixed Investment	0.5	-6.7	15.2	20.2	15.0	14.7	-15.9	-27.9	5.5	6.7
Change in Stocks	-21.8	57.9	-5.2	0.0	77.8	18.9	-80.8	108.5	38.8	NA
Net Factor Income from Abroad	27.5	-4.7	16.4	20.9	32.5	48.7	21.2	-22.3	12.3	NA
Gross National Product	3.8	3.6	8.1	8.9	7.7	8.7	-1.5	-4.4	3.3	NA
Memorandum Items										
Gross Domestic Savings	2.4	10.0	8.0	8.8	10.1	9.0	-6.5	0.2	5.8	5.0
Gross National Savings	0.1	11.7	7.1	8.8	7.5	3.2	-12.3	8.8	4.4	NA
Gross Domestic Expenditures on Domestic Goods and Services	3.3	2.5	7.9	8.8	8.5	8.1	-1.9	-7.2	2.7	3.5

SOURCE: National Institute of Statistics, Geography and Information, "Mexico: System of National Accounts", several issues.

TABLE 2.2. ^a GROSS DOMESTIC PRODUCT BY EXPENDITURE 1975-1984
(Rate of growth of implicit prices)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Gross Domestic Product	16.4	18.8	30.4	18.8	20.2	29.7	27.2	81.2	82.1	61.8
Exports	23.8	31.8	42.8	14.8	25.2	47.5	22.8	105.3	83.0	38.3
Imports	20.7	29.7	55.7	12.0	14.8	14.7	14.8	108.7	183.3	43.3
Gross Domestic Expenditures	16.2	18.4	31.3	18.8	19.1	25.0	26.0	59.4	65.4	65.0
Consumption	16.1	19.1	29.2	19.5	17.9	21.5	31.1	68.8	75.8	64.1
Private	16.3	19.1	29.7	19.4	17.8	20.5	30.3	68.4	83.8	64.6
Public	20.1	25.1	33.9	19.7	19.5	28.3	34.5	115.3	8.9	81.1
Fixed Investment	19.0	21.8	35.0	17.7	21.3	25.1	27.4	65.4	59.4	64.8
Change in Stocks	NA	-12.2	117.6	5.7	31.1	23.8	-5.1	-659.2	-343.5	52.0
Net Factor Income from Abroad	16.0	26.7	55.7	12.0	14.0	14.7	14.8	108.7	183.3	43.2
Gross National Product	16.0	19.5	29.9	18.8	20.4	29.1	27.8	59.3	69.0	62.8
Memorandum Items										
Gross Domestic Savings	16.0	21.4	34.5	17.6	27.9	50.1	17.7	42.0	143.2	55.5
Gross National Savings	16.0	21.1	32.4	18.1	29.6	55.2	20.0	31.7	139.8	137.7
Gross Domestic Expenditures on Domestic Goods and Services	16.0	18.8	29.0	18.8	19.6	28.5	27.8	53.4	61.1	68.8

SOURCE: National Institute of Statistics, Geography and Information, "Mexico: System of National Accounts", several issues.

TABLE 2.3.1 FIXED INVESTMENT BY MAIN COMPONENTS 1975-1985
 (In billions of current pesos)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Fixed Investment	235.7	289.4	369.4	482.5	718.5	1033.0	1508.5	2088.9	2872.3	4880.9
Private	138.9	176.3	216.7	270.4	403.9	589.8	820.7	1133.9	1689.1	2843.3
Construction	72.3	87.9	121.7	138.7	199.4	280.8	383.5	560.9	829.2	1522.5
Machinery & Equipment	64.6	78.4	87.0	131.7	214.5	309.0	437.2	573.0	739.9	1320.8
Public	98.8	112.1	144.7	222.1	314.6	443.4	688.8	955.0	1303.2	2047.6
Construction	63.3	72.3	81.9	150.0	215.3	327.2	482.7	688.1	951.5	1510.0
Machinery & Equipment	35.5	39.8	62.8	72.1	99.3	137.2	196.1	266.9	351.7	537.6
Change in Stocks	25.0	17.2	59.1	59.2	77.6	169.8	183.2	-98.0	499.9	1053.2
Gross Domestic Investment	260.7	305.6	422.5	551.7	796.1	1202.8	1702.7	2000.9	3472.2	5944.1

SOURCE: National Institute of Statistics, Geography and Information, "Mexico: System of National Accounts", several issues.

TABLE 2.3.2 FIXED INVESTMENT BY MAIN COMPONENTS 1975-1985
(In billions of 1970 pesos)

	1975	1976	1977	1978	1978	1980	1981	1982	1983	1984	1985
Fixed Investment	132.3	132.8	123.8	142.8	171.7	197.3	228.4	180.3	137.2	144.7	154.5
Private	77.6	82.3	78.7	80.7	89.0	112.5	128.1	108.1	80.3	87.5	99.0
Construction	38.8	43.8	42.8	40.8	44.2	47.0	50.1	50.3	45.1	47.3	50.3
Machinery & Equipment	38.0	38.7	34.1	40.1	54.8	65.5	78.0	55.8	35.2	40.2	48.7
Public	54.7	50.8	47.2	62.1	72.7	84.8	98.3	84.2	58.9	57.2	55.5
Construction	33.2	31.0	30.0	41.8	48.7	57.5	68.3	60.2	43.4	44.1	43.5
Machinery & Equipment	21.5	19.6	17.2	20.5	24.0	27.3	32.0	24.0	13.5	13.1	12.0
Change in Stocks	18.5	14.5	22.8	21.7	21.7	38.8	48.3	4.2	8.8	12.2	23.8
Gross Domestic Investment	150.8	147.4	146.8	164.5	193.4	235.8	272.7	194.5	146.0	156.9	178.3

SOURCE: National Institute of Statistics, Geography and Information, "Mexico: System of National Accounts", several issues.

TABLE 2.3.3 FIXED INVESTMENT BY MAIN COMPONENTS 1975-1985
(Share over GDP based on current prices)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Fixed Investment	83.4	84.4	86.0	89.3	80.3	85.9	88.7	104.9	85.8	82.3	83.7
Private	62.5	67.7	61.8	48.0	50.7	47.3	48.2	56.7	48.1	47.8	55.5
Construction	27.7	32.0	28.8	25.1	23.8	21.7	21.3	28.0	28.8	25.8	28.2
Machinery & Equipment	24.8	25.7	23.0	23.9	26.9	25.6	26.9	28.8	21.3	22.2	27.3
Public	37.9	36.7	34.2	40.3	39.5	38.6	40.5	48.2	37.5	34.4	31.1
Construction	24.3	23.7	21.8	27.2	27.0	27.2	28.8	34.8	27.4	25.4	24.4
Machinery & Equipment	13.6	13.0	12.5	13.1	12.5	11.4	11.5	13.3	10.1	9.0	6.7
Change in Stocks	9.8	5.6	14.0	10.7	9.7	14.1	11.3	-4.8	14.4	17.7	13.3
Gross Domestic Investment	100.0										

SOURCE: National Institute of Statistics, Geography and Information, "Mexico: System of National Accounts", several issues.

TABLE 2.3.4 FIXED INVESTMENT BY MAIN COMPONENTS 1975-1986
(Implicit price index 1970=100)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Fixed Investment	176.2	217.0	283.3	344.9	418.5	523.8	688.7	1102.9	2188.4	3380.0
Private	176.4	214.2	285.1	335.1	408.0	505.4	640.7	1088.7	2078.8	3249.5
Construction	187.3	224.5	285.7	341.8	428.5	554.5	725.5	1115.1	2080.3	3218.8
Machinery & Equipment	165.8	202.8	284.5	328.4	381.4	470.2	588.2	1028.9	2102.0	3285.6
Public	160.8	221.5	308.8	357.8	432.7	547.6	700.7	1148.1	2280.3	3579.7
Construction	180.7	233.2	306.3	380.8	442.1	589.0	743.1	1181.3	2182.4	3424.0
Machinery & Equipment	165.1	203.1	307.0	351.7	413.8	502.8	612.8	1107.9	2805.2	4103.8
Change in Stocks	135.1	118.8	258.1	272.8	357.8	439.8	417.3	-2333.3	5880.7	8632.8
Gross Domestic Investment	172.9	207.3	287.8	335.4	411.8	508.9	624.4	1028.7	2378.2	3788.5

SOURCE: National Institute of Statistics, Geography and Information, "Mexico's System of National Accounts", several issues.

TABLE 2.3.5 FIXED INVESTMENT BY MAIN COMPONENTS 1975-1985
(Annual growth rate in 1970 prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Fixed Investment	0.8	-8.8	16.3	20.2	14.9	14.7	-15.9	-27.9	5.5	8.7
Private	6.1	-8.8	5.2	22.7	13.6	13.9	-17.2	-24.3	8.0	13.1
Construction	13.0	-2.3	-4.7	8.9	6.3	8.6	0.4	-10.3	4.8	8.3
Machinery & Equipment	-0.8	-11.9	17.6	38.7	19.5	19.1	-29.5	-38.9	14.2	21.1
Public	-7.6	-6.7	31.6	17.1	16.9	15.9	-14.3	-32.4	0.5	-3.1
Construction	-6.6	-3.2	38.7	17.1	18.1	15.3	-9.2	-27.9	1.6	-1.4
Machinery & Equipment	-8.8	-12.2	19.2	17.1	13.9	17.2	-25.0	-43.9	-3.0	-8.8
Change in Stocks	-21.6	57.9	-6.2	0.0	77.9	19.9	-60.9	108.5	38.6	-
Gross Domestic Investment	-2.3	-0.4	12.1	17.6	22.0	15.6	-28.7	-24.9	7.5	13.5

SOURCE: National Institute of Statistics, Geography and Information. "Mexico: System of National Accounts", several issues.

TABLE 2.3.6 FIXED INVESTMENT BY MAIN COMPONENTS 1975-1986
(Rate of growth of implicit price index)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Fixed Investment	20.4	21.6	35.2	17.6	21.3	25.1	27.3	65.4	66.4	56.0
Private	20.7	21.4	33.1	17.5	21.6	23.9	26.8	68.6	64.5	56.3
Construction	24.0	19.9	27.2	19.6	25.4	29.4	30.9	53.7	64.8	59.2
Machinery & Equipment	17.5	22.3	40.4	15.5	18.2	20.1	24.7	75.2	104.7	56.3
Public	20.4	22.7	38.4	16.7	21.0	26.6	28.0	63.6	89.8	56.3
Construction	22.8	22.3	31.3	17.7	22.6	28.7	30.6	58.3	89.8	59.2
Machinery & Equipment	15.7	23.0	51.2	14.6	17.8	21.5	21.9	60.6	135.1	57.5
Change in Stocks	NA	-12.2	117.6	5.7	31.1	23.0	-5.1	-659.2	-343.5	52.0
Gross Domestic Investment	NA	18.9	38.8	16.5	22.7	23.9	22.5	64.8	131.2	59.3

SOURCE: National Institute of Statistics, Geography and Information, "Mexico: System of National Accounts", several issues.

TABLE 3.2.1 IMPORTS OF GOODS AND NON-FACTOR SERVICES 1975-1988
 (In millions of US dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1988
Total Merchandise Imports	8808.0	8299.9	5704.5	7917.5	11979.7	18832.3	23929.8	14421.8	8550.9	11254.3	13460.4	3082.5
Consumer Goods	581.0	583.1	503.2	850.9	1002.0	2449.8	2812.9	1519.5	813.8	848.1	1075.0	229.1
Intermediate Goods	4241.0	3808.4	3719.2	5265.0	7403.8	11208.7	13541.3	8389.9	5740.4	7833.4	8182.3	2022.4
Capital Goods	1897.0	1930.4	1482.1	1981.6	3573.9	5174.0	7575.4	4502.2	2196.7	2572.8	3233.1	811.1
Non Factor Services	3178.0	3439.0	2851.0	3540.0	4804.0	7309.0	10328.0	5789.8	4230.1	4952.8	5348.3	1152.2
Freight & Insurance	429.0	388.0	318.0	419.0	810.0	850.0	1124.0	820.0	455.0	534.0	554.0	122.9
Transportation	239.0	285.0	252.0	358.0	512.0	882.0	1265.0	1109.0	823.0	818.0	828.2	181.1
Border Trade	1589.0	1847.0	1381.0	1832.0	2246.0	3130.0	4584.0	1420.8	1141.7	1520.0	1594.4	328.2
Tourism	448.0	423.0	398.0	519.0	883.5	1043.8	1571.1	787.7	441.3	648.3	688.0	115.8
Other	475.0	524.0	524.0	612.0	852.5	1203.4	1781.9	1832.5	1389.1	1438.3	1703.8	404.2
Total Imports	8877.0	9738.9	8555.5	11457.5	16883.7	28141.3	34255.8	20181.4	12781.0	16206.9	18808.7	4214.7
None Items												
Merchandise Imports	8899.0	8299.9	5704.5	7917.5	11979.7	18832.3	23929.8	14421.8	8550.9	11254.3	13460.4	3082.5
Public	2258.0	2204.2	2098.5	2918.1	3804.3	7108.4	8821.8	5480.5	4308.5	4789.7	4354.2	895.7
Private	4441.0	4095.7	3606.0	5001.4	8075.4	11725.8	15107.7	8921.1	4244.4	6464.6	9106.2	2186.8

a/ For the first quarter 1988.

SOURCE: Bank of Mexico, "Indicadores Economicos".

TABLE 3.2.2 IMPORTS OF GOODS AND NON-FACTOR SERVICES 1976-1988
(Shares based on current prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 a/	
Total Merchandise Imports	5.7	5.8	5.8	5.7	5.9	6.4	6.2	7.5	4.8	5.2	5.7	5.4
Consumer Goods	42.8	39.1	43.5	48.1	49.9	42.9	39.5	41.6	44.9	48.3	48.7	49.0
Intermediate Goods	19.2	19.8	17.3	17.3	21.2	19.9	22.1	22.3	17.2	15.9	17.2	19.2
Capital Goods	67.8	64.7	66.7	69.1	71.0	72.0	68.9	71.4	68.9	69.4	71.6	72.7
Non Factor Services	32.2	35.3	33.3	30.9	29.0	29.0	30.1	29.6	33.1	30.6	29.4	27.3
Freight & Insurance	4.3	3.9	3.7	3.7	3.6	3.6	3.3	3.1	3.8	3.3	2.9	2.9
Transportation	2.4	2.7	2.9	3.1	3.0	3.8	3.7	5.5	6.4	5.0	4.4	4.3
Border Trade	18.1	19.0	15.9	14.2	13.3	12.0	13.4	7.0	8.9	9.4	8.5	7.8
Tourism	4.5	4.3	4.6	4.5	4.0	4.0	4.6	3.9	3.5	4.0	3.8	2.7
Other	4.8	5.4	6.1	5.9	5.0	4.6	5.2	9.1	10.7	8.9	9.1	9.8
Total Imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Main Items												
Merchandise Imports	67.8	64.7	66.7	69.1	71.0	72.0	68.9	71.4	68.9	69.4	71.6	72.7
Public	22.9	22.6	24.5	25.5	23.1	27.2	25.8	26.7	33.7	29.6	23.2	21.3
Private	45.0	42.1	42.1	43.7	47.8	44.8	44.1	44.7	35.2	39.8	48.4	51.4

a/ For the first quarter 1988.

SOURCES: Bank of Mexico, "Indicadores Economicos".

TABLE 3.2.3 IMPORTS OF GOODS AND SERVICES 1960-1966
(Billions of 1960 \$Max)

	1960	1961	1962	1963	1964	1965
Total Imports	120.3	144.7	81.1	59.1	62.0	71.1
Total Imports Goods (CIF)	86.7	102.1	62.3	39.9	42.8	50.2
Intermediate Consumer Goods	53.9	60.4	34.9	20.9	22.0	27.9
Final Consumer Goods	9.8	10.2	9.9	1.7	2.1	2.6
Capital Goods	23.1	31.5	18.3	8.8	7.9	9.8
Non-Monetary Gold and Silver	0.9	1.1	0.1	0.0	0.0	0.0
Services	34.9	36.1	29.7	17.9	20.7	20.9

SOURCE: National Institute of Statistics, Geography and Information, "Mexico: System of National Accounts", several issues.

TABLE 3.2.4 IMPORTS OF GOODS AND SERVICES 1980-1985
(Rate of growth in 1970 prices)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Total Imports	31.5	20.3	-37.1	-41.7	19.7	11.8
Total Imports Goods (CIF)	37.4	18.2	-39.0	-43.4	21.5	17.1
Intermediate Consumer Goods	34.4	12.0	-42.8	-62.9	23.3	15.2
Final Consumer Goods	80.9	8.6	-48.3	-69.4	21.9	22.8
Capital Goods	29.8	26.4	-42.0	-62.2	14.7	29.4
Non-Monetary Gold and Silver	-79.7	19.6	-83.9	0.0	0.0	0.0
Services	20.6	4.3	-20.4	-37.9	16.1	0.8

SOURCE: National Institute of Statistics, Geography and Information, "Mexico: System of National Accounts", several issues.

TABLE 3.2.5 MERCHANDISE IMPORTS BY TYPE OF GOODS 1980-1985
(Billions of US\$)

	1980	1981	1982	1983	1984	1985 a/
Agriculture	1871	2204	927	1621	1698	749
Of which:						
Corn	589	453	38	634	375	96
Wheat	183	214	87	80	42	23
Sorghum	308	432	185	434	383	227
Livestock and Fish	140	217	172	80	184	164
Metals and Minerals	256	279	221	122	194	120
Manufactured Goods	18364	21035	12988	6644	8122	5631
Of which:						
Food Industry	1175	1080	707	527	500	289
Textiles	262	404	150	47	99	69
Chemicals	2020	2383	557	878	1193	716
Machinery	8828	12474	763	3856	4702	2833
Steel	1824	2220	112	431	756	381
Other	2287	2504	1086	1207	1872	1584
Non-Classified Goods	200	195	130	82	59	43
Total Merchandise Import	18832	23930	14437	8551	11254	6707
Major Items						
Merchandise Imports	18832	23930	14437	8551	11254	6707
Public	7108	8922	5401	4243	4790	2398
Private	11728	15108	9036	3478	6464	4309

a/ For the first semester 1985.

SOURCE: Bank of Mexico, "Indicadores de Comercio Exterior", several issues.

Table 3.3.1 EXPORTS OF GOODS AND NON FACTOR SERVICES 1975-1985
(In millions of US dollars)

	1975	1973	1977	1978	1979	1980	1981	1982	1983	1984	1985 a/
Agriculture	719.0	1021.0	1181.0	1307.0	1618.0	1403.8	1378.2	1098.8	883.8	1308.4	711.2
of which:											
Cotton	178.0	287.0	188.0	308.0	310.0	316.7	308.8	183.8	115.7	208.2	87.3
Coffee	185.0	378.0	458.0	388.0	578.0	422.4	334.0	345.1	385.7	424.4	248.8
Teacocoa	133.0	141.0	215.0	188.0	207.0	168.8	280.0	153.8	112.3	220.7	188.2
Other	228.0	274.0	313.0	414.0	524.0	488.2	488.3	414.2	353.1	453.1	238.8
Livestock and Fish	178.0	115.0	131.0	184.0	183.8	124.0	184.2	138.4	221.7	154.4	41.8
Metals and Minerals	288.0	288.0	217.0	213.0	317.0	512.4	888.8	601.8	623.7	538.0	258.3
Petroleum and Gas	438.0	548.0	888.0	1774.0	3785.0	8887.7	13828.5	18108.8	15143.2	15188.4	8374.8
Manufactured Goods	1825.0	1738.0	2125.0	2574.0	2838.0	3670.7	4088.8	3328.0	5447.8	6843.2	3282.8
of which:											
Food	455.0	531.0	838.0	737.0	788.0	771.7	878.2	707.4	724.8	821.8	338.8
Textiles	188.0	182.0	180.0	188.0	208.0	184.8	181.8	180.3	181.3	278.3	101.8
Chemicals	205.0	238.0	241.0	268.0	338.0	388.1	487.2	441.8	627.8	765.8	325.5
Machinery	254.0	328.0	448.0	588.0	628.0	785.5	883.8	888.0	1883.8	2074.0	1028.8
Steel	48.0	54.0	82.0	138.0	131.0	88.8	84.0	112.4	318.8	377.7	118.8
Other	385.0	388.0	525.0	838.0	873.0	1388.0	1823.0	1088.3	1822.8	2538.4	1347.2
Non-classified Goods	0.0	0.0	2.0	2.0	0.0	3.2	5.7	8.0	8.7	14.2	3.5
Total Merchandise Exports	3882.0	3885.0	4848.0	6884.0	8787.0	15811.8	20102.1	21228.7	22312.0	24853.88	10853.7
Non factor Services	3585.0	4111.0	3885.0	4712.0	8007.0	7538.0	8128.0	4818.3	4851.5	5881.8	3208.8
Border Trade	1825.0	2288.0	2078.0	2384.0	2818.0	3722.0	4770.0	1237.0	1104.4	1328.0	555.1
Tourism	800.0	838.0	888.0	1121.0	1443.0	1671.0	1780.0	1405.8	1824.5	1853.4	1082.3
Assembly Industry	332.0	388.0	345.0	452.0	638.0	772.0	878.0	851.3	818.4	1155.8	848.8
Other	828.0	643.0	818.0	776.0	1087.0	1378.0	1822.0	1428.1	1304.2	1523.8	813.3
Total Exports	6847.0	7788.0	8884.0	10778.0	14804.0	23048.8	28230.1	28148.0	27183.5	30815.2	13883.3

a/ For the period January-June.

Sources: Bank of Mexico, "Indicadores de Comercio Exterior".

TABLE 3.3.2 EXPORTS OF GOODS AND NON FACTOR SERVICES 1978-1985
 (Shares based on current prices)

	1978	1979	1977	1978	1979	1980	1981	1982	1983	1984	1985 a/
Agriculture	10.8	13.7	13.9	12.1	10.9	6.1	4.7	4.2	3.6	4.4	5.1
of which:											
Cotton	2.9	3.4	2.9	2.8	2.1	1.4	1.1	0.7	0.4	0.7	0.4
Coffee	2.9	4.9	3.4	3.8	3.9	1.8	1.1	1.3	1.4	1.4	1.8
Tomatoes	2.0	1.9	2.5	1.9	1.4	0.7	0.9	0.9	0.4	0.7	1.2
Other	3.4	3.6	3.7	3.6	3.5	2.2	1.7	1.9	1.3	1.5	1.7
Livestock and Fish	2.6	1.5	1.5	1.8	1.1	0.5	0.4	0.5	0.8	0.5	0.3
Metals and Minerals	3.1	2.7	2.5	2.0	2.1	2.2	2.3	1.9	1.8	1.9	1.9
Petroleum and Gas	6.8	7.0	11.6	18.5	25.4	42.9	47.3	31.6	55.7	59.9	48.0
Manufactured Goods	22.9	22.3	24.8	23.9	19.6	15.5	14.0	12.9	20.1	22.9	23.5
of which:											
Food	6.8	6.8	7.3	6.8	5.4	3.3	2.3	2.7	2.7	2.7	2.5
Textiles	2.5	2.3	2.1	1.8	1.4	0.9	0.8	0.9	0.7	0.9	0.7
Chemicals	3.1	3.0	2.8	2.3	2.3	1.7	1.8	1.7	2.3	2.5	2.3
Machinery	3.8	4.2	3.2	3.3	4.2	3.4	3.1	3.4	6.1	6.9	7.4
Steel	0.7	0.7	1.1	1.3	0.9	0.9	0.2	0.4	1.2	1.3	0.9
Other	5.8	5.1	6.1	6.5	5.8	5.9	6.2	4.2	7.1	8.5	9.7
Reclassified Goods	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Merchandise Exports	49.1	47.1	54.3	56.3	59.4	67.9	69.8	61.2	82.1	80.1	76.0
Non factor Services	59.9	62.9	45.7	43.7	40.9	32.7	31.2	19.8	17.3	19.9	23.2
Border Trade	29.9	29.2	24.3	21.9	19.7	19.1	19.9	4.7	4.1	4.4	4.0
Tourism	12.0	10.8	10.1	10.4	9.7	7.2	6.9	5.4	5.0	6.5	7.9
Assembly Industry	5.0	4.7	4.0	4.2	4.3	3.3	3.3	3.3	3.0	3.9	4.7
Other	7.9	8.3	7.2	7.2	6.8	6.0	5.5	5.4	4.8	5.1	6.6
<u>Total Exports</u>	<u>109.0</u>	<u>110.0</u>	<u>100.0</u>								

a/ For the period January-June.

Sources: Bank of Mexico, "Indicadores de Comercio Exterior".

TABLE 3.3.3 EXPORTS OF GOODS AND SERVICES BY SECTOR OF ORIGIN 1980-1988
(Billions of 1970 Mex \$)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Total Exports	78.7	81.5	92.8	103.3	114.1	38.7
Goods Exports	38.3	38.8	43.4	57.7	59.5	58.8
Agriculture, Forestry Fishing	3.2	3.0	3.4	3.1	4.4	4.3
Mining of which: Oil	3.2 10.2	3.8 19.4	3.2 17.8	3.3 18.2	3.7 17.8	3.8 18.8
Manufacturing	19.8	18.8	32.8	34.8	38.5	34.1
Non Monetary Silver and Gold	0.8	1.1	1.0	1.0	1.1	1.8
Assembly Industry	8.0	8.5	8.4	8.2	8.7	7.9
Services	34.8	38.1	40.8	44.3	48.9	48.8
Main Items						
Non-Oil Exports	68.8	68.1	74.8	83.1	88.2	84.1
Non-Oil Merchandise Exports	28.0	28.4	27.5	34.8	41.8	42.0

SOURCE: National Institute of Statistics, Geography and Information, "Mexico: System of National Accounts", several issues.

RXD TABLE 4 - MEXICO
 SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL P DEBT
 PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1985
 INCLUDES ONLY DEBT COMMITTED 000000 - 198512
 DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
 (IN THOUSANDS OF U.S. DOLLARS)

*** TABLE TOTAL ***									
DATE	DEBT OUTSTANDING AT END OF PERIOD		TRANSACTIONS DURING PERIOD					OTHER CHANGES	
	DISBURSED ONLY	INCLUDING UNDISBURSED	COMMIT- MENTS	DISBURSE- MENTS	SERVICE PAYMENTS			CANCEL- LATIONS *	ADJUST- MENT **
	(1)	(2)	(3)	(4)	PRINCIPAL (5)	INTEREST (6)	TOTAL (7)	(8)	(9)
197512	11,413,738	13,668,941	4,364,393	4,077,026	754,988	829,177	1,584,165	180,440	-
197612	15,805,598	18,129,316	5,700,271	5,501,990	1,146,444	1,082,941	2,229,385	58,686	-34,786
197712	20,704,414	25,068,620	8,970,822	6,789,557	2,241,027	1,313,566	3,554,593	250,212	459,721
197812	25,532,558	30,896,425	9,456,896	8,530,951	4,405,023	1,897,926	6,302,949	128,690	904,622
197912	29,067,790	35,856,916	12,443,166	10,608,229	7,138,585	2,893,883	10,032,468	268,562	-75,528
198012	33,987,282	38,744,857	7,480,592	9,149,539	4,010,109	3,890,441	7,900,550	200,950	-381,592
198112	43,125,472	47,914,778	11,847,992	13,335,309	3,717,822	4,833,004	8,550,826	164,739	1,204,490
198212	51,641,769	57,293,316	13,051,279	11,894,390	3,281,845	6,189,153	9,470,998	213,593	-177,303
198312	66,758,683	72,584,591	7,443,747	7,212,839	4,847,923	6,607,705	11,455,628	44,015	12,739,466
198412	70,070,877	76,291,955	6,090,617	5,101,908	3,944,335	7,398,257	11,342,592	411,402	1,972,484
198512	72,509,918	78,019,063	2,308,701	4,423,415	3,475,115	7,501,575	10,976,690	234,746	3,128,268
*** THE FOLLOWING FIGURES ARE PROJECTED ***									
198612	70,954,363	73,940,144	-	2,523,368	4,078,435	7,078,890	11,157,325	-	-484
198712	66,390,690	68,111,860	-	1,264,611	5,828,279	6,792,329	12,620,608	-	-5
198812	63,439,984	64,487,369	-	673,788	3,624,500	5,818,872	9,443,372	-	9
198912	58,682,061	59,308,203	-	421,252	5,179,166	5,017,873	10,197,039	-	-
199012	53,427,672	53,789,927	-	263,900	5,518,287	3,937,787	9,456,074	-	11
199112	47,273,362	47,473,451	-	162,163	6,316,482	3,199,658	9,516,140	-	6
199212	40,865,830	40,966,550	-	99,372	6,506,907	3,274,416	9,781,323	-	6
199312	34,383,028	34,418,321	-	65,420	6,548,217	2,664,618	9,212,835	-	-12
199412	26,642,970	26,643,002	-	35,260	7,775,320	2,045,898	9,821,218	-	1
199512	20,343,312	20,343,344	-	-	6,299,653	1,619,539	7,919,192	-	-5
199612	13,958,499	13,958,530	-	-	6,384,814	1,676,876	8,061,690	-	-
199712	7,276,938	7,276,964	-	-	6,681,561	1,083,547	7,765,108	-	-5
199812	1,074,304	1,074,326	-	-	6,202,636	453,334	6,655,970	-	-2
199912	770,890	770,909	-	-	303,406	93,414	396,820	-	-11
200012	564,321	564,339	-	-	206,569	68,930	275,499	-	-1

* PROJECTED AMOUNTS IN THIS COLUMN ARE AMOUNTS EXCLUDED FROM PROJECTIONS BECAUSE OF UNKNOWN TERMS.
 ** THIS COLUMN SHOWS THE AMOUNT OF ARITHMETIC IMBALANCE IN THE AMOUNT OUTSTANDING INCLUDING UNDISBURSED FROM ONE PERIOD TO THE NEXT. THE MOST COMMON CAUSES OF IMBALANCES ARE CHANGES IN EXCHANGE RATES AND TRANSFERS OF DEBTS FROM ONE CATEGORY TO ANOTHER IN THE TABLE.

RXD TABLE - MEXICO
 SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL P DEBT
 PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1985
 INCLUDES ONLY DEBT COMMITTED 000000 - 198512
 DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
 (IN THOUSANDS OF U.S. DOLLARS)

CREDITOR TYPE

: SUPPLIERS CREDITS.

* * * TOTAL * * *

DATE	DEBT OUTSTANDING AT END OF PERIOD		TRANSACTIONS DURING PERIOD					OTHER CHANGES	
	DISBURSED ONLY	INCLUDING UNDISBURSED	COMMIT- MENTS	DISBURSE- MENTS	SERVICE PAYMENTS			CANCEL- LATIONS *	ADJUST- MENT **
	(1)	(2)	(3)	(4)	PRINCIPAL (5)	INTEREST (6)	TOTAL (7)	(8)	(9)
197512	513,528	594,464	176,730	160,347	166,849	34,552	201,101	9,548	-
197612	480,982	543,284	94,994	114,353	150,715	34,423	185,138	1,459	6,000
197712	467,428	516,757	101,553	116,800	146,201	35,710	181,911	52	18,173
197812	378,721	464,348	107,397	70,296	146,343	34,237	180,580	3,957	-9,506
197912	316,565	338,197	7,915	55,926	116,271	33,246	149,517	16,421	-1,374
198012	256,727	266,285	33,688	35,421	87,742	25,059	112,801	9,218	-8,640
198112	230,295	304,477	108,352	41,619	60,205	19,702	79,907	2,851	-7,104
198212	181,836	347,516	136,196	43,809	88,211	14,657	103,068	61	-4,885
198312	362,968	608,357	363,890	296,041	125,420	15,621	141,041	81	22,452
198412	204,720	411,403	164,175	83,659	239,622	22,932	262,554	115,631	-5,876
198512	216,846	406,970	40,188	59,682	51,983	17,611	69,594	913	7,275

* * * * * THE FOLLOWING FIGURES ARE PROJECTED * * *

198612	173,146	255,977	-	106,294	149,996	22,096	172,092	-	3
198712	127,250	133,441	-	76,639	122,537	15,581	138,118	-	1
198812	86,155	89,346	-	2,999	44,095	10,298	54,393	-	-
198912	70,941	72,112	-	2,020	17,235	7,352	24,587	-	1
199012	57,109	57,110	-	1,171	15,004	6,043	21,047	-	2
199112	43,385	43,386	-	-	13,726	4,812	18,538	-	2
199212	30,887	30,888	-	-	12,499	3,657	16,156	-	1
199312	20,042	20,042	-	-	10,845	2,643	13,488	-	-1
199412	11,583	11,583	-	-	8,460	1,765	10,225	-	1
199512	7,580	7,580	-	-	4,003	1,112	5,115	-	-
199612	4,527	4,527	-	-	3,054	731	3,785	-	1
199712	1,469	1,469	-	-	3,058	404	3,462	-	-
199812	-	-	-	-	1,469	79	1,548	-	-
199912	-	-	-	-	-	-	-	-	-
200012	-	-	-	-	-	-	-	-	-

* PROJECTED AMOUNTS IN THIS COLUMN ARE AMOUNTS EXCLUDED FROM PROJECTIONS BECAUSE OF UNKNOWN TERMS.

** THIS COLUMN SHOWS THE AMOUNT OF ARITHMETIC IMBALANCE IN THE AMOUNT OUTSTANDING INCLUDING UNDISBURSED FROM ONE PERIOD TO THE NEXT. THE MOST COMMON CAUSES OF IMBALANCES ARE CHANGES IN EXCHANGE RATES AND TRANSFERS OF DEBTS FROM ONE CATEGORY TO ANOTHER IN THE TABLE.

RXD TABLE ⁴ - MEXICO
 SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL P DEBT
 PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1985
 INCLUDES ONLY DEBT COMMITTED 000000 - 198512
 DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
 (IN THOUSANDS OF U.S. DOLLARS)

CREDITOR TYPE DATE	: BONDS *** TOTAL ***		: TRANSACTIONS DURING PERIOD					: OTHER CHANGES	
	DEBT OUTSTANDING AT END OF PERIOD		COMMIT- MENTS	DISBURSE- MENTS	SERVICE PAYMENTS PRINCIPAL	INTEREST	TOTAL	CANCEL- LATIONS *	ADJUST- MENT **
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
197512	687,977	687,977	139,883	179,883	37,958	46,410	84,368	-	-
197612	1,014,709	1,014,709	339,062	339,062	38,733	63,820	102,553	-	26,403
197712	2,260,534	2,403,314	1,262,541	1,124,315	45,998	93,716	139,714	-	172,062
197812	3,152,946	3,152,946	530,601	687,202	64,984	196,038	261,022	-	284,015
197912	3,151,251	3,151,251	241,805	241,805	259,586	257,499	517,085	-	16,086
198012	3,128,479	3,128,479	235,547	235,547	123,295	253,479	376,774	-	-135,024
198112	4,335,200	4,485,200	1,677,762	1,527,762	155,566	266,222	421,788	-	-165,475
198212	5,186,779	5,251,054	1,542,685	1,579,545	589,164	493,367	1,082,551	50,000	-137,667
198312	4,588,812	4,623,863	-	29,484	466,815	527,492	994,307	-	-160,376
198412	3,963,463	3,990,822	13,000	19,067	473,186	524,597	997,783	-	-172,855
198512	3,657,956	3,689,554	-	791	522,840	466,666	989,506	-	221,572
* * * * * THE FOLLOWING FIGURES ARE PROJECTED * * *									
198612	3,553,821	3,553,821	-	31,598	135,249	392,523	527,772	-	-484
198712	2,417,946	2,417,946	-	-	1,135,877	364,756	1,500,633	-	2
198812	1,697,399	1,697,399	-	-	720,548	255,008	975,556	-	1
198912	1,401,074	1,401,074	-	-	296,326	196,980	493,306	-	1
199012	1,087,246	1,087,246	-	-	313,828	167,865	481,693	-	-
199112	726,324	726,324	-	-	360,923	131,508	492,431	-	1
199212	411,942	411,942	-	-	314,383	88,679	403,062	-	1
199312	352,580	352,580	-	-	59,362	62,524	121,886	-	-
199412	348,098	348,098	-	-	4,482	59,451	63,933	-	-
199512	334,588	334,588	-	-	13,510	58,549	72,059	-	-
199612	321,076	321,076	-	-	13,512	56,462	69,974	-	-
199712	144,450	144,450	-	-	176,626	54,864	231,490	-	-
199812	144,450	144,450	-	-	-	22,390	22,390	-	-
199912	144,450	144,450	-	-	-	22,390	22,390	-	-
200012	144,450	144,450	-	-	-	22,390	22,390	-	-

* PROJECTED AMOUNTS IN THIS COLUMN ARE AMOUNTS EXCLUDED FROM PROJECTIONS BECAUSE OF UNKNOWN TERMS.

** THIS COLUMN SHOWS THE AMOUNT OF ARITHMETIC IMBALANCE IN THE AMOUNT OUTSTANDING INCLUDING UNDISBURSED FROM ONE PERIOD TO THE NEXT. THE MOST COMMON CAUSES OF IMBALANCES ARE CHANGES IN EXCHANGE RATES AND TRANSFERS OF DEBTS FROM ONE CATEGORY TO ANOTHER IN THE TABLE.

RXD TABLE - MEXICO
 SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL P DEBT
 PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1985
 INCLUDES ONLY DEBT COMMITTED 000000 - 198512
 DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
 (IN THOUSANDS OF U.S. DOLLARS)

CREDITOR TYPE : FINANCIAL INSTITUTIONS									
* * * TOTAL * * *									
DATE :	DEBT OUTSTANDING AT :		TRANSACTIONS DURING PERIOD :					OTHER CHANGES :	
:	END OF PERIOD :								
:	DISBURSED :	INCLUDING :	COMMIT-	DISBURSE-	SERVICE PAYMENTS :			CANCEL-	ADJUST-
:	ONLY :	UNDISBURSED :	MENTS :	MENTS :	PRINCIPAL :	INTEREST :	TOTAL :	LATIONS * :	MENT ** :
:	(1) :	(2) :	(3) :	(4) :	(5) :	(6) :	(7) :	(8) :	(9) :
197512	7,935,235	8,906,773	3,373,422	3,253,623	431,804	613,084	1,044,888	73,735	-
197612	11,722,825	12,392,544	4,447,375	4,627,161	828,782	816,163	1,644,945	42,774	-90,048
197712	15,006,725	17,717,759	7,123,702	5,070,381	1,892,599	977,328	2,869,927	47,610	141,722
197812	18,635,937	21,867,598	7,839,319	7,315,124	3,996,297	1,405,288	5,401,585	122,503	429,320
197912	21,992,727	26,565,083	11,157,278	9,587,944	6,323,964	2,326,167	8,650,131	158,965	23,136
198012	26,147,859	27,920,077	5,171,262	7,799,329	3,516,697	3,299,675	6,816,372	112,736	-186,835
198112	33,224,973	34,122,632	8,038,432	10,517,985	3,158,473	4,186,968	7,345,441	113,230	1,435,826
198212	39,393,265	40,293,793	8,439,334	8,263,773	2,181,950	5,252,917	7,434,367	84,010	-2,213
198312	55,129,219	56,083,887	5,774,513	5,655,742	2,775,354	5,481,344	8,256,698	34,034	12,824,969
198412	58,517,666	60,595,024	4,667,483	3,466,994	2,503,894	6,314,785	8,818,679	2,298	2,349,846
198512	60,224,601	61,902,114	1,000,627	2,832,804	2,053,933	6,451,021	8,504,954	79,356	2,439,752
* * * * * THE FOLLOWING FIGURES ARE PROJECTED * * *									
198612	58,757,302	59,359,712	-	1,075,101	2,542,404	5,893,725	8,436,129	-	2
198712	55,657,311	55,914,100	-	345,622	3,445,610	5,659,903	9,105,513	-	-2
198812	54,030,068	54,158,457	-	128,401	1,755,643	4,841,686	6,597,329	-	-
198912	50,292,517	50,355,267	-	65,642	3,803,182	4,160,252	7,963,434	-	-8
199012	46,186,748	46,200,115	-	49,385	4,155,154	3,177,145	7,332,300	-	2
199112	41,178,638	41,178,639	-	13,365	5,021,481	2,550,460	7,571,941	-	5
199212	35,901,456	35,901,457	-	-	5,277,181	2,737,496	8,014,677	-	-1
199312	30,231,771	30,231,771	-	-	5,669,685	2,224,542	7,894,227	-	-1
199412	23,239,208	23,239,208	-	-	6,992,564	1,674,887	8,667,451	-	1
199512	17,656,634	17,656,634	-	-	5,582,570	1,314,450	6,897,020	-	-4
199612	11,866,477	11,866,477	-	-	5,790,157	1,432,361	7,222,518	-	-
199712	5,838,540	5,838,540	-	-	6,027,938	888,232	6,916,170	-	1
199812	20,220	20,220	-	-	5,818,320	329,802	6,148,122	-	-
199912	15,853	15,853	-	-	4,362	1,044	5,406	-	-5
200012	11,491	11,491	-	-	4,362	776	5,138	-	-

* PROJECTED AMOUNTS IN THIS COLUMN ARE AMOUNTS EXCLUDED FROM PROJECTIONS BECAUSE OF UNKNOWN TERMS.

** THIS COLUMN SHOWS THE AMOUNT OF ARITHMETIC IMBALANCE IN THE AMOUNT OUTSTANDING INCLUDING UNDISBURSED FROM ONE PERIOD TO THE NEXT. THE MOST COMMON CAUSES OF IMBALANCES ARE CHANGES IN EXCHANGE RATES AND TRANSFERS OF DEBTS FROM ONE CATEGORY TO ANOTHER IN THE TABLE.

RXD TABLE - MEXICO
 SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL P DEBT
 PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1985
 INCLUDES ONLY DEBT COMMITTED 000000 - 198512
 DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
 (IN THOUSANDS OF U.S. DOLLARS)

CREDITOR TYPE : BILATERAL LOANS									
*** TOTAL ***									
DATE :	DEBT OUTSTANDING AT		TRANSACTIONS DURING PERIOD					OTHER CHANGES	
:	END OF PERIOD								
:	DISBURSED	INCLUDING	COMMIT-	DISBURSE-	SERVICE PAYMENTS			CANCEL-	ADJUST-
:	ONLY	UNDISBURSED	MENTS	MENTS	PRINCIPAL	INTEREST	TOTAL	LATIONS *	MENT **
:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1975 12	662,020	903,695	242,599	206,167	57,820	29,072	86,892	97,157	-
1976 12	771,007	1,081,158	237,668	164,018	60,592	40,438	101,030	10,723	11,110
1977 12	883,447	1,286,359	199,037	148,561	76,710	53,169	129,879	4,469	87,343
1978 12	1,008,098	1,650,410	332,881	156,399	98,870	66,223	165,093	2,230	132,270
1979 12	888,776	1,371,305	234,655	225,964	316,356	66,626	382,982	93,176	-97,228
1980 12	1,265,043	2,200,264	1,057,118	437,286	141,024	75,857	216,881	72,945	-21,190
1981 12	1,675,310	2,692,566	710,941	577,699	177,745	103,915	281,660	18,485	-22,409
1982 12	2,118,905	3,738,462	1,329,997	677,866	221,529	145,933	367,462	67,361	4,789
1983 12	2,474,596	3,864,228	336,831	570,684	299,737	178,506	478,243	6,881	95,553
1984 12	2,555,172	3,670,470	348,932	523,391	369,065	197,707	566,772	48,048	-105,577
1985 12	2,655,563	3,670,241	131,204	336,220	358,380	178,351	536,731	14,717	241,664
*** THE FOLLOWING FIGURES ARE PROJECTED ***									
1986 12	2,472,004	2,904,656	-	582,031	765,580	233,374	998,954	-	-5
1987 12	2,211,058	2,349,328	-	294,382	555,322	205,035	760,357	-	-6
1988 12	1,861,973	1,888,618	-	111,628	460,718	174,418	635,136	-	8
1989 12	1,515,755	1,521,223	-	21,183	367,401	142,059	509,460	-	6
1990 12	1,185,001	1,185,027	-	5,451	336,202	114,832	451,034	-	6
1991 12	956,201	956,226	-	-	228,800	86,743	315,543	-	-1
1992 12	732,525	732,548	-	-	223,678	68,719	292,397	-	-
1993 12	585,325	585,342	-	-	147,195	50,870	198,065	-	-11
1994 12	469,259	469,275	-	-	116,066	39,504	155,570	-	-1
1995 12	381,349	381,365	-	-	87,909	31,159	119,068	-	-1
1996 12	323,505	323,521	-	-	57,844	24,994	82,838	-	-
1997 12	274,857	274,872	-	-	48,647	21,049	69,696	-	-2
1998 12	231,702	231,717	-	-	43,157	17,714	60,871	-	2
1999 12	190,544	190,559	-	-	41,155	14,829	55,984	-	-3
2000 12	152,432	152,447	-	-	38,112	12,090	50,202	-	-

* PROJECTED AMOUNTS IN THIS COLUMN ARE AMOUNTS EXCLUDED FROM PROJECTIONS BECAUSE OF UNKNOWN TERMS.

** THIS COLUMN SHOWS THE AMOUNT OF ARITHMETIC IMBALANCE IN THE AMOUNT OUTSTANDING INCLUDING UNDISBURSED FROM ONE PERIOD TO THE NEXT. THE MOST COMMON CAUSES OF IMBALANCES ARE CHANGES IN EXCHANGE RATES AND TRANSFERS OF DEBTS FROM ONE CATEGORY TO ANOTHER IN THE TABLE.

RXD TABLE 4 - MEXICO
 SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL P DEBT
 PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1985
 INCLUDES ONLY DEBT COMMITTED 000000 - 198512
 DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
 (IN THOUSANDS OF U.S. DOLLARS)

CREDITOR TYPE : MULTILATERAL LOANS									
*** TOTAL ***									
DATE	DEBT OUTSTANDING AT END OF PERIOD		TRANSACTIONS DURING PERIOD					OTHER CHANGES	
	DISBURSED ONLY	INCLUDING UNDISBURSED	COMMITMENTS	DISBURSEMENTS	SERVICE PAYMENTS			CANCEL-LATIONS	ADJUST-MENT
	(1)	(2)	(3)	(4)	PRINCIPAL	INTEREST	TOTAL	(8)	(9)
197512	1,614,978	2,576,032	431,759	277,008	58,770	108,991	164,761	-	-
197612	1,816,075	3,087,621	581,172	257,398	87,622	128,087	195,719	3,730	11,769
197712	2,088,280	3,144,431	283,989	308,500	79,519	153,643	233,162	198,081	40,421
197812	2,356,856	3,761,123	646,898	301,930	98,529	196,190	294,669	-	68,523
197912	2,718,471	4,424,080	801,513	496,590	122,408	210,345	332,753	-	-16,148
198012	3,189,174	5,229,752	982,977	641,956	141,351	236,371	377,722	6,051	-29,903
198112	3,659,694	6,309,903	1,312,505	870,244	165,833	256,197	422,030	30,173	-36,348
198212	4,760,984	7,662,491	1,603,067	1,329,397	200,991	282,059	483,050	12,161	-37,327
198312	4,203,088	7,404,256	968,513	660,888	1,180,597	404,742	1,585,339	3,019	-43,132
198412	4,829,856	7,572,838	845,429	1,008,797	338,568	338,236	676,804	245,425	-93,054
198512	5,754,262	8,390,494	1,136,682	1,142,320	437,071	386,491	823,562	139,760	218,005
***** THE FOLLOWING FIGURES ARE PROJECTED *****									
198612	5,998,090	7,865,978	-	728,344	484,516	537,133	1,021,649	-	-
198712	5,977,125	7,297,045	-	547,968	568,933	547,054	1,115,987	-	-
198812	5,764,389	6,653,549	-	430,760	643,496	537,462	1,180,958	-	-
198912	5,401,774	5,958,527	-	332,407	695,022	511,230	1,206,252	-	-
199012	4,911,568	5,260,429	-	207,893	698,099	471,901	1,170,000	-	1
199112	4,368,814	4,568,876	-	148,798	691,552	426,135	1,117,687	-	-1
199212	3,789,020	3,889,715	-	99,372	679,168	375,865	1,055,031	-	5
199312	3,193,310	3,228,586	-	65,420	661,130	323,939	985,069	-	1
199412	2,574,822	2,574,838	-	35,260	653,748	270,291	924,039	-	-
199512	1,963,161	1,963,177	-	-	611,661	214,269	825,930	-	-
199612	1,442,914	1,442,929	-	-	520,247	162,328	682,575	-	-1
199712	1,017,622	1,017,633	-	-	425,292	118,998	544,290	-	-4
199812	677,932	677,939	-	-	339,690	83,349	423,039	-	-4
199912	420,043	420,047	-	-	257,889	55,151	313,040	-	-3
200012	255,948	255,951	-	-	164,095	33,674	197,769	-	-1

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RXD TABLE 4 - MEXICO
 SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL P DEBT
 PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1985
 INCLUDES ONLY DEBT COMMITTED 000000 - 198512
 DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
 (IN THOUSANDS OF U.S. DOLLARS)

CREDITOR TYPE DATE	CREDITOR COUNTRY DEBT OUTSTANDING AT END OF PERIOD		TRANSACTIONS DURING PERIOD					OTHER CHANGES	
	DISBURSED ONLY	INCLUDING UNDISBURSED	COMMIT- MENTS	DISBURSE- MENTS	SERVICE PAYMENTS			CANCEL- LATIONS *	ADJUST- MENT **
(1)	(2)	(3)	(4)	(5)	PRINCIPAL	INTEREST	TOTAL	(8)	(9)
197512	1,123,097	1,843,536	310,000	188,447	38,509	77,703	116,212	-	-
197612	1,222,505	2,211,129	410,000	141,815	42,408	89,420	131,828	-	1
197712	1,374,180	2,127,686	162,000	201,855	60,180	101,877	152,057	195,263	-
197812	1,480,858	2,561,553	494,500	167,312	60,633	123,086	183,719	-	-
197912	1,730,564	3,012,576	527,000	325,682	75,977	144,453	220,430	-	-
198012	2,063,290	3,548,477	625,000	421,823	89,099	165,908	255,007	-	-
198112	2,416,866	4,439,259	1,021,000	480,006	106,428	176,733	283,161	23,789	-1
198212	2,691,919	4,837,372	539,900	407,809	132,762	194,744	327,506	9,028	3
198312	2,869,771	5,392,093	740,300	360,414	182,556	216,707	399,263	3,019	-4
198412	3,268,671	5,473,759	576,300	682,506	263,611	232,736	496,347	231,025	2
198512	3,771,619	6,004,537	928,000	840,414	357,461	261,915	619,376	39,780	-1
* * * * * THE FOLLOWING FIGURES ARE PROJECTED * * *									
198612	4,008,349	5,629,534	-	611,733	375,003	364,260	739,263	-	-
198712	4,034,282	5,199,030	-	456,437	430,504	374,761	805,265	-	-
198812	3,908,876	4,703,279	-	370,345	495,751	370,214	865,965	-	-
198912	3,658,186	4,163,946	-	289,643	539,333	351,527	890,860	-	-
199012	3,316,290	3,637,065	-	183,965	526,861	322,575	849,436	-	-
199112	2,932,510	3,117,292	-	136,013	519,783	289,690	809,483	-	-
199212	2,512,706	2,606,714	-	90,779	510,583	252,876	763,459	-	5
199312	2,076,981	2,110,344	-	60,646	496,371	214,467	710,838	-	1
199412	1,616,916	1,616,929	-	23,350	493,415	174,428	667,843	-	-
199512	1,149,591	1,149,604	-	-	467,325	131,632	599,157	-	-
199612	757,998	758,010	-	-	391,593	91,795	483,388	-	-1
199712	457,100	457,108	-	-	300,898	59,639	360,537	-	-4
199812	227,763	227,767	-	-	229,337	34,739	264,076	-	-4
199912	69,880	69,881	-	-	157,883	15,913	173,796	-	-3
200012	-	-	-	-	69,880	3,158	73,038	-	-1

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RXD TABLE 4 - MEXICO
 SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL P DEBT
 PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1985
 INCLUDES ONLY DEBT COMMITTED 000000 - 198512
 DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
 (IN THOUSANDS OF U.S. DOLLARS)

CREDITOR TYPE CREDITOR COUNTRY DATE	DEBT OUTSTANDING AT END OF PERIOD	: MULTILATERAL LOANS : BIS : TRANSACTIONS DURING PERIOD					: OTHER CHANGES		
		DISBURSED ONLY	INCLUDING UNDISBURSED	COMMIT- MENTS	DISBURSE- MENTS	SERVICE PAYMENTS			CANCEL- LATIONS *
	(1)	(2)	(3)	(4)	PRINCIPAL	INTEREST	TOTAL	(8)	(9)
197512	-	-	-	-	-	-	-	-	-
197612	-	-	-	-	-	-	-	-	-
197712	-	-	-	-	-	-	-	-	-
197812	-	-	-	-	-	-	-	-	-
197912	-	-	-	-	-	-	-	-	-
198012	-	-	-	-	-	-	-	-	-
198112	-	-	-	-	-	-	-	-	-
198212	735,000	925,000	925,000	735,000	-	-	-	-	-
198312	-	-	-	190,000	925,000	84,589	1,009,589	-	-
198412	-	-	-	-	-	-	-	-	-
198512	-	-	-	-	-	-	-	-	-
* * * * * THE FOLLOWING FIGURES ARE PROJECTED * * *									
198612	-	-	-	-	-	-	-	-	-
198712	-	-	-	-	-	-	-	-	-
198812	-	-	-	-	-	-	-	-	-
198912	-	-	-	-	-	-	-	-	-
199012	-	-	-	-	-	-	-	-	-
199112	-	-	-	-	-	-	-	-	-
199212	-	-	-	-	-	-	-	-	-
199312	-	-	-	-	-	-	-	-	-
199412	-	-	-	-	-	-	-	-	-
199512	-	-	-	-	-	-	-	-	-
199612	-	-	-	-	-	-	-	-	-
199712	-	-	-	-	-	-	-	-	-
199812	-	-	-	-	-	-	-	-	-
199912	-	-	-	-	-	-	-	-	-
200012	-	-	-	-	-	-	-	-	-

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RXD TABLE 4 - MEXICO
 SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL P DEBT
 PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1985
 INCLUDES ONLY DEBT COMMITTED 00000 - 198512
 DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
 (IN THOUSANDS OF U.S. DOLLARS)

CREDITOR TYPE CREDITOR COUNTRY		: MULTILATERAL LOANS : IDB							OTHER CHANGES	
DATE	DEBT OUTSTANDING AT END OF PERIOD	TRANSACTIONS DURING PERIOD								
	DISBURSED ONLY	INCLUDING UNDISBURSED	COMMIT- MENTS	DISBURSE- MENTS	SERVICE PAYMENTS			CANCEL- LATIONS *	ADJUST- MENT **	
	(1)	(2)	(3)	(4)	PRINCIPAL (5)	INTEREST (6)	TOTAL (7)	(8)	(9)	
197512	491,881	732,496	121,759	88,559	20,261	28,288	48,549	-	-	
197612	593,570	886,492	171,172	115,581	25,214	38,677	63,891	3,730	11,768	
197712	712,100	1,016,745	121,989	107,645	29,339	51,766	81,105	2,818	40,421	
197812	875,998	1,199,570	152,198	134,618	37,896	73,054	110,950	-	68,523	
197912	987,907	1,411,504	274,513	170,908	46,431	65,892	112,323	-	-16,148	
198012	1,125,884	1,681,275	357,977	220,133	52,252	70,463	122,715	6,051	-29,903	
198112	1,242,828	1,870,644	291,505	210,238	59,405	79,464	138,869	6,384	-36,347	
198212	1,334,065	1,900,119	138,167	186,588	68,229	87,315	155,544	3,133	-37,330	
198312	1,333,317	2,012,163	228,213	110,474	73,041	103,446	176,487	-	-43,128	
198412	1,541,185	2,098,879	269,129	326,291	74,957	105,500	180,457	14,400	-93,056	
198512	1,982,643	2,345,957	208,682	301,906	79,610	124,576	204,186	100,000	218,006	
* * * * * THE FOLLOWING FIGURES ARE PROJECTED * * *										
198612	1,989,741	2,236,444	-	116,611	109,513	172,853	282,366	-	-	
198712	1,942,843	2,098,015	-	91,531	138,429	172,273	310,702	-	-	
198812	1,855,513	1,950,270	-	60,415	147,745	167,248	314,993	-	-	
198912	1,742,588	1,794,581	-	42,764	155,689	159,703	315,392	-	-	
199012	1,595,278	1,623,344	-	23,928	171,238	149,326	320,564	-	1	
199112	1,436,304	1,451,584	-	12,785	171,759	136,445	308,204	-	-1	
199212	1,276,314	1,283,001	-	8,593	168,583	122,989	291,572	-	-	
199312	1,116,329	1,118,242	-	4,774	164,759	109,472	274,231	-	-	
199412	957,906	957,909	-	1,910	160,333	95,863	256,196	-	-	
199512	813,570	813,573	-	-	144,336	82,437	226,773	-	-	
199612	684,916	684,919	-	-	126,654	70,533	199,187	-	-	
199712	560,522	560,525	-	-	124,394	59,359	183,753	-	-	
199812	450,169	450,172	-	-	110,353	48,610	158,963	-	-	
199912	350,163	350,166	-	-	100,006	39,238	139,244	-	-	
200012	255,948	255,951	-	-	94,215	30,516	124,731	-	-	

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RXD TABLE 1 - MEXICO
 SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL P DEBT
 PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1985
 INCLUDES ONLY DEBT COMMITTED 00000 - 198512
 DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
 (IN THOUSANDS OF U.S. DOLLARS)
 : NATIONALIZATION

CREDITOR TYPE : NATIONALIZATION									
*** TOTAL ***									
DATE :	DEBT OUTSTANDING AT :	TRANSACTIONS DURING PERIOD :					OTHER CHANGES		
END OF PERIOD :									
	DISBURSED :	INCLUDING :	COMMIT- :	DISBURSE- :	SERVICE PAYMENTS :			CANCEL- :	ADJUST-
	ONLY :	UNDISBURSED :	MENTS :	MENTS :	PRINCIPAL :	INTEREST :	TOTAL :	LATIONS * :	MENT **
	(1) :	(2) :	(3) :	(4) :	(5) :	(6) :	(7) :	(8) :	(9) :
197512	-	-	-	-	2,087	68	2,155	-	-
197612	-	-	-	-	-	-	-	-	-
197712	-	-	-	-	-	-	-	-	-
197812	-	-	-	-	-	-	-	-	-
197912	-	-	-	-	-	-	-	-	-
198012	-	-	-	-	-	-	-	-	-
198112	-	-	-	-	-	-	-	-	-
198212	-	-	-	-	-	-	-	-	-
198312	-	-	-	-	-	-	-	-	-
198412	-	-	-	-	-	-	-	-	-
198512	-	-	-	-	-	-	-	-	-
*** THE FOLLOWING FIGURES ARE PROJECTED ***									
198612	-	-	-	-	-	-	-	-	-
198712	-	-	-	-	-	-	-	-	-
198812	-	-	-	-	-	-	-	-	-
198912	-	-	-	-	-	-	-	-	-
199012	-	-	-	-	-	-	-	-	-
199112	-	-	-	-	-	-	-	-	-
199212	-	-	-	-	-	-	-	-	-
199312	-	-	-	-	-	-	-	-	-
199412	-	-	-	-	-	-	-	-	-
199512	-	-	-	-	-	-	-	-	-
199612	-	-	-	-	-	-	-	-	-
199712	-	-	-	-	-	-	-	-	-
199812	-	-	-	-	-	-	-	-	-
199912	-	-	-	-	-	-	-	-	-
200012	-	-	-	-	-	-	-	-	-

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TABLE 4.3 EXTERNAL DEBT BY MAJOR CREDITORS AND CURRENCIES 1982-1985
(Millions of US\$, end of period)

	1982 Dec	1983 Dec	1984 Dec	1985 Dec
I. PUBLIC SECTOR	99,730	96,839	99,378	72,080
1. Commercial Banks	46,398	84,090 a/	80,866	87,813
Restructured	19,963	22,110	23,143	23,220
Non-restructured	26,423	31,980	33,723	34,593
Pamex acceptances	4,378	4,378	3,925	3,315
Other	28,049	26,608	29,798	31,279
2. Other Creditors	13,344	12,489	12,512	13,501
World Bank and IDB	8,041	4,432	4,879	5,845
Bilateral	2,718	3,080	3,361	4,418
Private placements	1,373	885	710	658
Suppliers	128	337	247	187
Bonds	4,083	3,788	3,288	3,088
3. Currency Composition of total pub. ext. debt				
Austrian Schellings	NA	28	16	22
Belgium Francs	NA	48	100	152
Canadian Dollars	NA	355	608	132
Deutsche Marks	1,881	1,412	1,178	1,418
Dutch Guilders	NA	124	119	182
ECUs	0	0	0	0
French Francs	NA	548	402	412
Italian Liras	NA	18	38	101
Japanese Yen	784	827	1,388	2,001
Pounds Sterling	1,002	1,087	859	921
Swiss Francs	690	480	478	640
U. S. Dollars	89,469	87,987	89,817	64,078
II. MEXICAN BANKS	6,831	6,888	6,240	4,824
1. Commercial banks c/	6,888 a/	8,148	4,888	3,813
2. Other Creditors b/	145	1,789	1,341	811
III. PRIVATE SECTOR c/	18,107	18,287	18,800 f/	18,800 g/
1. Commercial banks	14,887	14,887	NA	14,417
FICORCA	10,238	10,238	NA	9,838
Reportes (back to back)	1,841	1,041	NA	889
Other	2,808	2,608	NA	3,689
2. Other Creditors	4,888	4,888	NA	3,888
FICORCA	1,488	1,488	NA	1,548
Suppliers	1,888	1,888	NA	818
Other	1,511	1,511	NA	881
IV. IMF	220	1,288	2,387	2,848
V. TOTAL EXTERNAL DEBT (I+II+III+IV) d/	97,988	97,838	98,888	87,328

a/ Mainly interbank positions

b/ Includes CCC

c/ As registered, excludes unregistered debt, mainly short term and trade related.

d/ Line items for short-term external debt and long-term external debt, based on original maturity, will be shown when applicable.

e/ Includes debt to Mexican banks for US\$ 3148.

f/ Most recent available data of private sector for private sector foreign debt.

SOURCE: Secretaria de Hacienda y Credito Publico, "Mexico: Economic and Financial Statistics Data Book, May 31, 1986"

TABLE 4.4 AMORTIZATION SCHEDULE OF TOTAL DEBT
(US\$ millions)

	Outstanding to Dec. 31, 1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Other Years
I. COMMERCIAL BANK DEBT	77279	9230	8329	12499	13542	12445	9336	3623	1673	1338	265	137	133	0	0	4999
Public Sector a/	56865	8585	7345	11879	10478	9531	6779	904	898	366	100	0	0	0	0	0
Restructured	23143	0	0	5786	5786	5786	5785	0	0	0	0	0	0	0	0	0
Non-restructured	25872	8585	5807	4533	3154	3169	196	106	100	100	100	0	0	0	0	0
New Money	7850	0	1538	1538	1538	576	798	798	798	266	0	0	0	0	0	0
1983	5000	0	1538	1538	1538	386	0	0	0	0	0	0	0	0	0	0
1984	2850	0	0	0	0	190	798	798	798	266	0	0	0	0	0	0
Banks	4999	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	4999
Private Sector b/	15415	645	894	620	3064	2914	2577	2319	775	972	165	137	133	0	0	0
II. OTHER CREDITORS	16938	4092	2467	2034	1745	1013	1029	1041	752	538	519	314	248	259	220	667
Public Sector	13853	2336	1965	1604	1581	935	1029	886	752	538	519	314	248	259	220	667
Official	9601	1912	1425	994	756	714	646	622	488	425	363	303	234	148	114	457
World Bank/IDB	4879	433	417	427	421	423	414	385	356	331	292	255	205	113	81	324
Bilateral	3381	782	501	428	335	291	232	237	132	94	71	46	29	35	33	133
CCC	1341	695	507	130	0	0	0	0	0	0	0	0	0	0	0	0
Private Placements	710	134	45	138	157	105	63	22	31	7	2	2	2	2	0	0
Suppliers	247	88	53	37	30	10	6	5	5	4	2	2	2	3	0	0
Bonds	3295	202	442	435	638	106	314	237	228	102	152	7	10	106	106	210
Private Sector b/	3085	1756	502	430	164	78	0	155	0	0	0	0	0	0	0	0
III. INF c/	2367	0	125	280	419	640	653	886	222	170	79	2	0	0	0	-629
IV. TOTAL	96584	13322	10831	14813	15706	14098	11038	4870	2647	2046	863	453	381	259	220	5037

a/ Amortization Schedule before the 1985-1990 rescheduling and amendment of restructuring agreements 1982-1984 maturities.

b/ Amortization schedule as of December 31, 1984.

c/ Repurchases starting in 1986 assume full utilization of INF Estraded Facility.

SOURCE: Secretaria de Hacienda, "Mexico: Economic and Financial Statistics, Data Book, May 31, 1986"

TABLE B.1.1 CONSOLIDATED PUBLIC SECTOR 1974-1983
(In Billion CDM)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Current Revenue	130.9	180.7	243.5	338.0	455.4	631.8	855.9	1196.4	2245.4	4555.3	7825.2	11330.6
Taxes	55.4	122.6	165.4	219.2	290.0	393.8	554.4	838.8	1437.2	2854.9	4725.5	7824.4
Non-Taxes	44.8	58.1	67.7	118.8	165.4	234.9	301.5	307.7	808.2	1700.4	2638.7	3506.2
General Government	7.9	9.8	19.8	19.8	25.1	28.2	44.3	65.3	120.7	193.2	265.1	434.8
Social Security Contribution	0.0	0.0	0.0									
Value Added	16.9	18.8	25.4	33.9	44.1	57.0	77.1	103.2	183.5	244.5	577.8	1678.8
Value Added	22.3	28.8	48.5	63.2	87.2	148.7	180.1	139.2	531.0	1282.7	2048.0	2391.1
Current Expenditure	138.3	188.2	254.8	333.1	417.5	555.0	822.5	1256.1	2207.3	4718.7	8230.2	13001.5
Consumption	59.8	78.5	100.8	139.8	183.8	207.3	289.8	438.0	758.0	1125.4	2134.4	3301.8
Wages Enterprises	18.8	25.3	25.8	41.7	55.8	70.5	93.4	129.8	229.3	347.0	538.7	880.8
Interests	17.7	25.3	45.8	58.4	73.7	103.8	152.5	304.7	617.4	2653.7	3568.9	5388.5
Domestic	8.8	12.4	25.5	21.8	28.9	38.8	60.2	191.1	342.8	908.8	2078.5	3729.7
External	8.8	12.8	20.4	34.8	44.8	65.1	92.4	143.7	474.8	1145.1	1810.4	1988.8
Current Transfers	41.8	59.0	78.2	98.0	124.1	183.2	329.9	365.8	1002.8	1193.8	1970.2	3014.8
Participations	5.8	8.8	13.8	18.5	24.5	35.1	78.9	118.8	188.2	287.1	642.8	1048.8
Other Transfers	18.4	29.8	33.2	51.8	70.1	87.8	182.1	171.0	812.0	843.8	778.8	885.8
Deficit of Small Enterprises	8.4	8.3	9.2	0.8	2.0	8.8	24.8	27.8	84.8	88.7	147.7	282.1
Deficit Financial Institutions	11.5	13.4	22.1	25.1	27.4	41.8	43.3	88.1	128.0	184.0	434.4	728.3
Current Savings	-8.8	-7.4	-11.7	5.0	38.8	68.8	83.4	-58.7	-582.1	-64.4	-805.8	-1678.8
Capital Expenditures	67.2	102.7	123.8	128.7	184.7	282.8	433.2	808.8	1888.4	1455.3	1838.1	2685.3
Direct Investment	50.4	84.4	83.0	118.8	177.7	248.1	388.8	608.7	832.1	1007.8	1818.8	2401.8
Indirect Investment	1.8	15.7	11.2	-7.3	-4.8	8.3	27.8	30.8	82.7	158.8	188.7	141.3
Capital Transfers	5.8	2.8	29.8	84.2	21.7	37.4	24.7	185.5	173.8	281.5	270.8	323.8
Financial Deficit	85.2	110.2	135.8	124.7	155.8	226.0	338.8	635.7	1680.5	1819.7	2831.1	4538.2
Main Item												
Economic Deficit a/	53.7	88.8	113.5	89.8	128.4	184.4	288.5	798.8	1832.8	1388.7	2188.7	3888.8
Budgetary Deficit b/	47.3	80.5	104.2	88.8	128.3	175.8	271.8	788.8	1437.8	1237.8	2042.8	3547.8
(As % GDP)												
Current Revenue	14.5	16.4	17.8	18.8	18.8	20.8	22.4	20.4	23.8	27.2	23.5	24.8
Current Expenditure	15.4	17.1	18.8	18.8	17.8	18.4	20.2	21.4	29.8	27.5	28.8	29.5
Capital Expenditure	8.4	8.8	9.8	7.0	8.8	9.5	10.1	13.7	11.7	8.8	8.8	8.8
Deficit	7.2	10.0	8.8	8.7	6.7	7.4	7.8	14.7	17.8	8.8	8.8	10.0
Economic Deficit	8.0	8.0	8.3	8.4	8.8	8.0	8.8	19.8	18.8	7.8	7.8	8.4
Budgetary Deficit	5.3	8.2	7.8	5.4	5.4	5.7	8.4	13.1	15.3	7.2	7.1	7.8

a/ Defined as Total Deficit less Deficit of Financial Institutions.

b/ Defined as Economic Deficit less Deficit of enterprises outside of the budgetary sector (i.e. Metro, TELENEX, DDF).

SOURCE: Ministry of Finance

TABLE 5.12 CONSOLIDATED PUBLIC SECTOR 1974-1983
[In Billion Ghana 1970-1980]

Year	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	
Current Revenue	83.6	100.2	112.9	120.2	130.0	130.1	132.2	135.1	219.5	232.5	235.4
Taxes	54.8	66.0	72.0	78.8	86.3	100.5	128.8	137.5	137.9	147.8	148.2
Non-Taxes	28.8	32.8	40.8	42.8	50.7	58.3	67.9	47.8	77.5	84.8	87.1
General Government	4.7	5.1	6.4	7.1	7.6	7.1	6.7	10.1	11.5	8.5	8.2
Social Security	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution	9.9	11.0	12.7	13.4	14.6	15.2	16.0	16.0	16.0	12.2	17.9
Value Added	14.3	16.9	22.5	29.5	37.9	38.5	21.5	61.0	63.1	67.2	47.2
Current Expenditure	89.8	104.4	118.1	127.2	148.1	199.8	194.3	208.5	235.7	234.1	230.0
Consumption	28.4	43.5	46.7	49.4	48.9	62.5	67.4	72.9	65.2	65.8	66.0
Large Enterprises	12.1	14.0	13.8	14.9	17.0	18.4	19.9	22.0	17.3	19.8	19.8
Interests	11.4	14.0	21.2	20.0	22.4	29.3	47.1	76.5	102.6	110.8	113.9
Domestic	5.7	8.8	11.8	7.7	8.8	11.8	24.9	32.8	45.4	64.2	74.8
External	5.8	7.2	9.5	12.4	13.8	18.5	22.2	43.8	57.2	46.5	39.3
Current Transfers	28.8	32.7	36.2	34.1	37.8	44.4	59.8	68.2	60.5	60.3	60.3
Participations	3.0	5.9	6.4	6.6	7.5	8.9	18.4	18.1	18.3	19.8	20.8
Other Transfers	11.8	18.5	18.4	21.3	24.8	35.8	28.5	59.7	27.2	23.8	19.7
Deficit of Small Enterprises	4.1	3.5	4.3	0.2	0.8	2.2	4.3	0.1	4.9	4.9	5.2
Deficit Financial Institutions	7.4	7.4	10.2	8.9	10.5	8.5	10.7	12.3	8.2	12.5	14.5
Current Savings	-5.1	-4.1	-5.4	1.8	11.8	16.8	18.4	-8.2	-33.9	-18.7	-22.4
Capital Expenditure	38.7	57.0	57.4	48.1	59.3	74.2	88.3	124.7	135.4	72.7	61.4
Direct Investment	32.4	46.8	41.2	40.1	54.1	63.1	74.9	94.3	79.8	50.3	48.8
Indirect Investment	1.2	8.7	-2.6	-1.5	1.6	8.5	4.8	4.8	8.8	7.8	8.2
Capital Transfers	3.2	1.4	11.0	8.8	8.8	4.9	20.8	18.7	14.8	8.4	8.5
Financial Deficit	41.9	81.1	82.9	44.4	47.4	57.3	68.8	133.9	158.4	75.9	60.7
Items											
Economic Deficit a/	34.5	54.8	52.6	36.4	39.1	48.7	58.4	123.2	147.1	68.7	78.2
Budgetary Deficit (As % GDP)	30.4	50.2	49.3	35.2	38.5	44.5	53.5	119.0	138.0	61.8	69.0
Current Revenue	14.5	18.4	17.7	18.3	19.5	20.8	22.4	20.4	22.8	27.2	24.9
Current Expenditure	15.4	17.1	18.8	18.0	17.8	18.4	20.2	21.4	20.9	27.5	28.5
Capital Expenditure	6.4	9.3	9.0	7.8	8.3	9.5	10.1	13.7	11.7	13.8	13.9
Capital Deficit	8.4	9.3	9.0	8.7	8.3	7.4	7.9	14.7	14.7	17.8	16.0
Financial Deficit	6.0	9.0	8.3	8.4	8.5	8.0	8.8	19.0	18.3	7.8	8.4
Economic Deficit	5.3	8.2	7.6	8.4	8.4	8.7	8.4	13.1	15.3	7.2	7.9

a/ Defined as Total Deficit less Deficit of Financial Institutions.
b/ Defined as Economic Deficit less Deficit of enterprises outside of the budgetary sector (i.e. Macro, TELEKOM, DDF).

SOURCE: Ministry of Finance

TABLE 5.2 GENERAL GOVERNMENT 1974-1985
(In Billion Rupee)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Current Revenue	198.0	182.2	194.6	274.8	356.2	482.1	775.7	1037.2	1714.4	3382.6	5579.2	8889.0
Taxes	65.4	122.6	155.4	219.2	289.0	389.0	654.4	939.9	1437.2	2854.8	4738.5	7524.4
Non-Taxes	7.9	9.8	19.8	19.8	25.1	28.2	44.8	66.5	120.7	193.2	268.1	434.6
Social Security Contribution	15.9	19.8	25.4	35.8	44.1	57.0	77.1	109.2	158.5	244.5	577.6	1009.9
Current Expenditure	102.0	142.2	183.2	259.4	329.3	426.0	678.4	1014.4	2287.9	3823.5	6702.2	10606.4
Consumption	59.8	78.5	100.8	139.0	169.9	207.9	295.6	439.9	769.0	1125.4	2134.4	3301.0
Interests	16.1	14.8	28.2	34.8	48.7	61.6	83.9	162.1	329.0	1979.1	2489.0	4291.1
Current Transfers	26.0	48.9	54.2	85.5	112.7	157.1	280.4	389.9	1009.9	1320.0	2098.8	3026.8
Current Savings	6.2	19.6	9.9	15.5	25.9	55.1	102.4	42.8	-573.5	-439.8	-1123.0	-1639.4
Capital Expenditures	34.8	57.6	73.7	75.8	104.7	169.5	262.5	476.8	693.9	920.7	1137.9	2059.2
Direct Investment	21.0	29.7	33.7	38.8	54.9	68.4	146.7	227.5	342.2	359.8	533.7	972.0
Indirect Investment	-0.9	3.5	4.4	-2.5	-2.8	11.8	23.8	22.2	55.3	104.6	67.9	62.4
Capital Transfers	13.9	24.6	35.7	39.5	49.5	69.1	91.9	226.1	236.4	456.3	519.2	1019.8
Deficits	29.8	47.1	65.4	80.3	98.6	167.4	189.1	482.9	1297.4	1351.9	2260.9	3882.0
None Item												
(As % GDP)												
Current Revenue	12.0	13.6	14.2	14.8	16.4	15.7	19.1	19.6	19.1	19.9	19.4	19.7
Current Expenditure	11.4	12.8	13.6	14.0	13.9	13.9	13.7	17.9	24.3	22.9	29.8	23.9
Current Savings	0.6	0.9	0.6	0.6	1.5	1.0	2.4	0.7	-6.1	-2.5	-3.6	-3.6
Capital Expenditure	3.8	5.2	5.4	4.1	4.5	5.3	5.9	6.1	6.7	5.4	4.0	4.5
Deficit	3.8	4.9	4.8	3.3	2.9	3.5	3.5	7.4	13.8	7.9	7.8	8.1

SOURCE: Ministry of Finance

TABLE B.3 FEDERAL GOVERNMENT ACCOUNTS 1974-1988
[In Billion \$]

Year	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Current Revenue	89.4	129.7	161.9	230.5	303.9	412.9	553.9	659.2	839.3	1039.3	1317.4	1692.9	2207.2	2879.9	3779.9
Taxes	83.9	120.2	152.9	219.9	289.4	412.9	549.9	649.9	829.9	1029.9	1307.4	1682.9	2197.2	2870.0	3760.0
Oil Related	8.3	14.8	14.8	29.0	39.3	59.9	107.7	154.7	254.7	354.7	448.6	548.6	648.6	748.6	848.6
Gasoline	0.4	5.0	5.0	10.0	15.0	20.0	30.0	40.0	50.0	60.0	70.0	80.0	90.0	100.0	110.0
Other Taxes	7.9	9.8	9.8	19.0	24.0	30.0	40.0	50.0	60.0	70.0	80.0	90.0	100.0	110.0	120.0
Income	39.3	48.3	55.7	63.9	73.2	83.2	93.2	103.2	113.2	123.2	133.2	143.2	153.2	163.2	173.2
Payroll	1.2	1.6	2.0	2.4	3.0	3.6	4.2	4.8	5.4	6.0	6.6	7.2	7.8	8.4	9.0
Sales-VAT	14.8	20.4	20.2	30.0	40.4	50.8	60.1	70.5	80.9	91.3	101.7	112.1	122.5	132.9	143.3
Excise	18.1	17.1	23.8	20.5	28.0	27.3	30.8	34.3	37.8	41.3	44.8	48.3	51.8	55.3	58.8
Imports	8.8	10.8	12.3	10.7	15.3	14.3	18.3	17.3	21.3	20.3	24.3	23.3	27.3	26.3	30.3
Exports	1.7	1.4	2.7	2.3	2.8	3.1	3.4	3.7	4.0	4.3	4.6	4.9	5.2	5.5	5.8
Other	0.1	5.4	1.2	15.1	18.3	21.0	24.0	27.0	30.0	33.0	36.0	39.0	42.0	45.0	48.0
Non Tax	4.6	6.8	6.8	14.6	17.5	17.5	20.5	23.5	26.5	29.5	32.5	35.5	38.5	41.5	44.5
Current Expenditures	87.1	123.5	169.1	229.3	280.1	389.2	507.1	627.5	807.9	1011.9	1291.9	1691.9	2207.9	2878.9	3778.9
Consumption	38.0	58.4	69.7	89.9	118.0	148.7	208.8	268.8	328.8	408.8	508.8	608.8	708.8	808.8	908.8
Wages	34.8	38.4	41.2	49.1	62.8	76.5	105.5	134.5	163.5	202.5	252.5	302.5	352.5	402.5	452.5
Goods and Services	9.3	14.0	11.9	8.0	7.5	11.0	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9
Other	0.0	0.0	1.6	8.0	8.0	3.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Adverse	3.9	5.0	5.8	9.2	9.0	12.0	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1
Imports	9.4	13.8	27.8	34.3	44.8	57.4	77.0	97.0	117.0	137.0	157.0	177.0	197.0	217.0	237.0
Current Transfers	39.8	57.2	68.9	104.1	133.3	163.1	207.5	241.7	286.1	330.5	374.9	419.3	463.7	508.1	552.5
Participations	9.4	14.3	18.4	28.7	38.3	48.2	58.1	68.0	77.9	87.8	97.7	107.6	117.5	127.4	137.3
Other Transfers	30.4	42.9	47.2	77.4	95.0	114.9	149.4	173.1	208.2	242.8	277.2	311.7	346.2	380.7	415.2
To Social Security	18.0	13.1	14.1	29.8	37.9	43.3	49.3	55.3	61.3	67.3	73.3	79.3	85.3	91.3	97.3
To Other	12.4	29.8	33.2	51.6	57.1	70.1	82.1	92.1	102.1	112.1	122.1	132.1	142.1	152.1	162.1
Capital Expenditures	47.9	60.4	64.0	84.0	102.9	128.1	169.2	207.7	246.2	284.7	323.2	361.7	399.2	437.7	475.2
Direct Investments	12.8	18.1	21.7	30.6	44.3	58.0	71.7	85.4	99.1	112.8	126.5	140.2	153.9	167.6	181.3
Foreign	8.2	12.5	14.8	18.9	24.0	29.1	34.2	39.3	44.4	49.5	54.6	59.7	64.8	69.9	75.0
Domestic	4.6	5.6	6.9	11.7	14.3	18.9	24.0	29.1	34.2	39.3	44.4	49.5	54.6	59.7	64.8
Indirect Investments	-0.1	0.5	-0.6	-0.7	-1.1	-1.5	-1.9	-2.3	-2.7	-3.1	-3.5	-3.9	-4.3	-4.7	-5.1
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adverse B/	0.0	0.0	0.0	-0.7	-1.1	-1.5	-1.9	-2.3	-2.7	-3.1	-3.5	-3.9	-4.3	-4.7	-5.1
Capital Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Transfers	18.7	28.4	33.3	41.8	47.8	54.4	60.4	66.4	72.4	78.4	84.4	90.4	96.4	102.4	108.4
To Social Security	10.7	25.0	19.7	17.7	23.0	27.0	31.0	35.0	39.0	43.0	47.0	51.0	55.0	59.0	63.0
To Other	8.0	3.4	13.6	24.1	24.8	27.4	29.4	31.4	33.4	35.4	37.4	39.4	41.4	43.4	45.4
Deficit	27.1	49.9	61.7	81.0	87.0	101.5	133.8	159.9	198.0	239.9	284.5	332.0	381.7	431.4	481.1
From Tax	11.8	11.8	11.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8
Current Expenditures	9.8	11.8	11.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8
Current Revenue	9.7	11.8	11.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8
Capital Expenditures	3.2	4.3	4.4	3.9	3.8	4.2	4.6	5.0	5.4	5.8	6.2	6.6	7.0	7.4	7.8
Deficit	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0

SOURCE: Ministry of Finance

Adverse adjusted to expenditures incurred in previous fiscal years but paid in the current year. B/ Adverse are defined as non-recurring expenditures or revenues.

TABLE 5.4 FEDERAL DISTRICT ACCOUNTS 1974-1985
[In Billion CMax]

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Current Revenue	8.0	10.4	13.0	16.8	21.9	28.4	40.0	52.8	75.6	172.9	295.9	393.4
Revenue Sharing	3.7	4.7	5.8	6.2	10.8	14.1	25.2	34.1	50.0	132.2	200.3	285.8
Transfers Received	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	38.8	47.0
Own Revenues	4.2	5.7	7.4	8.5	11.2	12.3	14.8	18.7	25.8	40.7	59.0	80.8
Taxes	1.5	2.4	2.8	3.3	3.8	4.4	5.6	7.8	12.0	14.3	23.1	33.1
Other Own Revenues	2.7	3.3	4.5	5.2	7.8	7.9	9.3	11.0	13.8	26.4	35.9	47.5
Current Expenditure	5.0	6.8	8.3	8.8	12.0	11.8	21.7	21.0	34.3	66.8	123.3	233.8
Consumption	4.3	5.8	6.8	8.0	10.1	7.7	15.3	12.8	27.5	62.5	98.0	183.5
Wages	2.4	3.3	4.3	5.1	6.3	7.1	9.0	12.4	16.7	40.6	55.1	87.4
Goods and Services	1.9	2.3	2.8	3.8	3.8	5.3	5.2	4.0	10.8	23.8	32.5	45.0
Adeyas	0.0	0.0	0.0	0.0	0.0	-4.7	1.2	-3.8	0.0	18.1	10.4	41.1
Interests	0.7	1.0	1.4	0.8	1.9	4.2	6.3	8.2	6.8	4.3	25.3	50.3
Current Savings	2.9	3.9	4.7	7.2	10.0	14.5	18.4	31.8	41.3	66.1	172.6	159.6
Capital Expenditures	5.3	6.8	6.5	6.4	13.3	24.0	32.7	64.0	60.6	116.5	238.0	293.9
Direct Investment	4.1	5.1	5.1	4.8	12.8	19.9	28.9	62.8	60.6	100.5	195.9	293.9
Indirect Investment	1.2	1.4	1.4	1.8	0.7	4.1	2.8	1.4	0.0	16.0	42.1	0.0
Deficit	2.4	2.7	1.8	-0.8	3.3	8.5	14.3	32.1	39.3	30.4	65.4	134.3
Memo Item												
[As % GDP]												
Current Revenue	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	1.0	1.0	0.9
Current Expenditure	0.6	0.6	0.6	0.5	0.5	0.4	0.5	0.4	0.4	0.5	0.4	0.5
Capital Expenditure	0.6	0.6	0.5	0.3	0.6	0.8	0.8	1.1	0.9	0.7	0.8	0.6
Deficit	0.3	0.2	0.1	0.0	0.1	0.3	0.3	0.5	0.4	0.2	0.2	0.3

SOURCE: Ministry of Finance

TABLE 5.5 SOCIAL SECURITY ACCOUNTS 1975-1985
(In Billion Ghs)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Current Revenue	20.8	27.0	33.7	40.8	53.6	77.2	101.7	122.8	212.6	267.4	337.8	1125.1
Social Secur. Contributions	15.3	18.8	23.4	25.8	44.1	57.0	77.1	103.2	155.5	244.5	377.8	1033.3
Current Transfers Received	3.1	3.7	4.8	10.4	9.9	11.8	1.9	11.8	40.1	38.5	40.1	57.8
Capital Transfers Received	2.4	3.5	3.8	3.4	5.1	6.3	22.7	18.3	16.0	6.4	20.1	57.7
Current Expenditures	17.5	20.8	25.2	40.1	41.8	53.8	71.7	101.3	122.2	238.8	335.1	688.7
Wages	11.1	14.2	18.0	29.8	30.9	38.8	58.1	78.8	140.8	183.4	329.5	481.2
Other	6.4	6.4	6.2	11.2	10.9	15.0	13.6	21.7	21.3	75.4	225.7	477.5
Basic Services and Others	4.6	6.5	6.1	10.5	15.5	18.9	23.8	22.5	54.0	75.2	94.8	47.5
Other Current Expenditures	0.8	0.8	0.9	0.8	1.6	2.1	5.0	10.8	20.5	38.5	23.9	26.8
Current Savings	3.3	6.4	8.5	6.5	17.2	23.3	30.0	31.5	30.4	18.8	62.8	165.4
Capital Expenditures	3.5	7.0	10.4	8.8	15.7	19.7	32.8	22.4	48.1	37.3	84.8	132.7
Direct Investment	4.8	5.5	6.8	4.4	8.0	9.6	19.0	28.4	33.6	15.8	48.8	81.8
Indirect Investment	-1.4	1.5	3.5	4.4	7.7	10.1	13.3	4.0	9.5	21.7	15.8	40.8
Assets	-1.4	1.5	3.5	4.4	8.2	10.1	13.3	4.0	9.5	21.7	15.8	40.8
-Capital Revaluations	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deficit	0.1	0.8	1.9	-0.7	-1.5	-3.8	2.3	0.8	-2.3	18.7	-17.7	-23.7
Ratio Item												
[As % GDP]												
Current Revenue	2.3	2.5	2.5	2.7	2.5	2.5	2.4	2.3	2.3	1.7	2.2	2.5
Current Expenditures	1.9	1.9	1.9	2.2	1.8	1.9	1.7	1.7	1.7	1.8	1.9	2.1
Capital Expenditures	0.4	0.6	0.8	0.5	0.7	0.8	0.8	0.6	0.5	0.2	0.2	0.3
Deficit	0.0	0.1	0.1	0.0	-0.1	-0.1	0.1	0.0	0.0	0.1	-0.1	-0.1

SOURCE: Ministry of Finance

TABLE 5.8 SUMMARY ACCOUNTS OF PEREX 1974-1978
(In Billion \$Max)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Current Revenue	18.9	26.2	33.1	50.5	78.4	128.5	260.4	345.9	878.8	2297.8	3405.6	4592.5
Value Added	18.2	23.0	31.2	49.8	77.6	127.9	280.4	345.9	878.8	2297.8	3405.6	4592.5
Export Sales	0.0	0.0	9.7	23.4	42.4	90.8	239.8	357.2	948.5	1924.7	2785.2	3945.3
Domestic Sales	30.2	38.3	38.8	45.3	61.8	77.4	113.9	73.8	45.7	535.5	905.3	1485.2
Other Current R	0.8	0.3	0.7	0.8	1.2	3.9	3.9	14.2	34.9	84.6	150.3	133.3
-Goods and Services	12.7	13.6	15.0	19.8	27.6	44.0	77.0	89.4	148.3	247.2	436.3	871.3
Current Transfers	1.1	1.7	1.8	0.8	0.6	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Capital Transfers	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Expenditures	12.8	18.9	18.8	35.4	49.9	81.8	218.8	328.9	894.8	1570.0	2333.9	3488.7
Wages	8.6	8.7	8.9	13.2	14.2	18.5	27.0	34.8	65.5	101.8	161.4	277.9
Interest	1.3	1.5	3.0	3.8	7.4	14.9	27.4	61.7	169.3	319.8	474.9	683.8
Taxes	4.8	8.6	7.8	18.3	28.3	48.2	182.4	232.4	459.8	1148.8	1707.7	2746.9
Current Savings	6.5	7.3	13.4	15.1	29.5	48.9	83.8	17.0	194.2	727.6	1071.7	1103.8
Capital Expenditures	7.9	20.9	22.7	32.0	61.3	84.4	127.0	241.2	328.4	398.2	588.0	685.0
Direct Investment	8.0	12.5	21.5	35.6	62.7	90.9	121.9	229.8	285.0	348.3	488.7	589.0
Indirect Investment	-0.1	8.4	1.3	-3.6	-1.4	-8.2	5.1	11.6	44.4	50.9	88.3	87.0
Financial Investment	0.0	0.0	0.0	0.0	0.0	0.7	0.0	1.2	0.0	0.2	0.4	0.0
A/Rones	-0.1	8.4	1.3	-3.6	-1.3	-8.8	5.1	13.8	48.1	50.7	88.8	87.0
-Capital Revaluation	0.1	0.0	0.1	0.1	0.1	0.1	0.0	3.2	1.7	0.0	0.0	0.0
Deficit	1.4	13.6	9.3	18.9	32.8	37.5	63.4	224.2	135.2	-328.4	-503.7	-418.8
Ratio Item												
(% of GDP)												
Current Revenue	2.1	2.4	2.4	2.7	3.4	4.2	8.8	5.9	9.3	13.4	11.8	10.1
Current Expenditure	1.4	1.7	1.4	1.8	2.1	2.7	6.1	6.8	7.3	9.2	8.1	7.7
Capital Expenditure	0.8	1.9	1.7	1.7	2.8	2.8	3.0	4.1	3.5	2.3	2.0	1.6
Deficit	0.2	1.2	0.7	0.8	1.4	1.2	1.5	3.8	1.4	-1.9	-1.8	-0.8

SOURCE: Ministry of Finance

TABLE 6.7 CONTROLLED STATE ENTERPRISES OTHER THAN FENEX AND SOCIAL SECURITY 1974-1985
(In Billion 0Max)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Current Revenue	21.2	35.7	39.8	49.8	70.7	101.2	139.9	180.0	349.2	568.3	1124.9	2003.6
Value Added	5.8	7.7	17.5	22.2	33.3	50.3	43.3	-4.0	67.6	8.8	215.9	351.5
Sales	38.9	49.4	61.2	64.7	108.8	131.4	165.1	217.3	368.2	658.7	1382.5	2472.7
Other Current Revenues	2.2	3.8	4.3	4.6	4.5	7.8	12.2	17.6	24.9	45.3	116.9	155.1
Goods and Services	35.4	45.5	48.0	67.1	80.0	88.9	134.0	238.8	325.5	694.2	1263.5	2277.3
Current transfers	7.7	7.7	7.5	13.7	18.8	22.5	39.4	103.7	218.8	399.1	683.4	875.7
Capital Transfers	7.7	20.2	11.5	13.7	20.8	28.4	57.2	60.3	62.8	159.4	245.8	676.4
Current Expenditure	15.7	20.8	29.5	38.9	52.1	60.3	98.4	135.4	255.8	507.4	887.7	1570.7
Wages	10.1	12.8	18.5	22.3	34.0	42.4	58.1	81.2	135.8	188.7	337.8	625.5
Interests	4.8	7.1	11.0	13.8	15.5	22.1	35.5	51.1	114.8	302.9	612.9	801.6
Taxes	0.8	0.8	1.8	3.0	2.6	3.8	6.8	3.1	5.0	7.8	17.0	43.8
Current Savings	5.8	15.1	7.1	10.7	18.8	32.9	41.5	24.8	93.4	60.9	157.2	432.9
Capital Expenditures	18.8	40.5	32.4	27.8	41.5	64.5	97.0	126.3	174.3	242.4	443.3	687.0
Direct Investment	15.9	35.7	25.5	27.2	39.8	60.1	83.2	124.8	167.4	238.0	426.5	658.6
Indirect Investment	2.8	4.7	8.8	0.8	1.7	4.4	3.8	1.5	8.2	4.4	18.9	28.4
Financial Investment	0.3	0.8	0.4	0.1	0.1	2.9	0.5	0.7	3.1	8.7	21.9	15.7
Ajens	2.7	4.1	8.7	0.8	2.3	2.0	3.8	1.0	7.1	-5.0	-4.5	14.1
-Capital Revaluations	0.1	0.2	0.3	0.1	0.7	0.5	0.5	0.2	3.3	0.3	0.8	1.4
Deficit	13.2	25.4	25.3	17.1	22.9	31.8	55.5	101.7	80.8	181.5	286.1	254.1
Memo Item												
(As % GDP)												
Current Revenue	2.4	3.2	2.7	2.7	3.0	3.3	3.3	2.7	3.7	3.3	3.9	4.4
Current Expenditure	1.7	1.8	2.1	2.1	2.2	2.2	2.3	2.3	2.7	3.0	3.4	3.4
Capital Expenditure	2.1	3.7	2.4	1.5	1.8	2.1	2.3	2.2	1.8	1.4	1.5	1.5
Deficit	1.5	2.3	1.8	0.9	1.0	1.0	1.3	1.7	0.9	1.1	1.0	0.8

SOURCE: Ministry of Finance

TABLE 5.8 SUMMARY ACCOUNTS OF TELNEX AND METRO 1974-1985
(In Billion \$Mex)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Current Revenue	6.2	9.1	10.6	14.6	18.6	26.4	29.6	35.9	54.3	127.1	166.5	252.5
Value Added	4.8	6.5	10.2	13.0	17.9	25.0	27.6	32.8	49.4	111.7	149.2	208.1
Sales	8.8	13.9	14.6	20.5	28.6	38.5	47.7	63.6	85.0	160.9	179.1	251.3
Other Current Revenues	0.5	0.5	2.1	1.2	0.5	3.2	0.3	0.1	1.3	7.7	26.4	47.3
Goods and Services	4.5	5.9	6.5	8.7	11.3	14.6	20.4	30.9	38.9	58.9	58.3	80.5
Current transfers	0.1	0.0	0.0	0.9	0.9	1.1	2.0	2.8	4.9	10.0	17.3	25.0
Capital Transfers	0.5	0.6	0.6	0.6	0.0	0.3	0.0	0.3	0.0	5.4	0.0	19.4
Current Expenditure	4.2	6.9	8.0	10.7	12.7	16.5	18.6	22.7	45.1	101.6	79.7	136.5
Wages	2.1	3.8	4.5	6.2	7.7	9.6	10.3	12.9	27.9	48.5	47.6	88.6
Interests	1.6	1.8	2.7	4.0	4.1	5.3	6.3	9.8	17.2	53.1	32.1	49.9
Taxes	0.5	1.3	0.8	0.5	0.9	1.6	2.0	0.0	0.0	0.0	0.0	0.0
Current Savings	1.0	2.2	2.6	3.9	6.1	9.9	11.0	13.2	9.2	25.5	86.8	116.0
Capital Expenditures	4.1	6.6	7.1	8.4	8.0	9.1	13.9	23.3	23.6	57.8	85.8	135.9
Direct Investment	4.7	7.5	8.4	10.2	10.3	12.0	18.6	27.8	37.5	61.8	89.9	172.4
Indirect Investment	-0.7	-0.9	-1.3	-1.8	-2.3	-2.9	-4.9	-4.5	-13.9	-4.0	-4.4	-38.5
Financial investment	0.1	0.0	0.1	0.0	0.0	0.0	0.8	1.0	7.3	22.8	0.0	0.0
Ajenes	0.0	0.1	0.0	0.0	0.0	0.0	-2.6	-2.4	-17.2	-19.4	10.2	-15.6
-Capital Revaluations	0.8	1.0	1.3	1.8	2.3	2.9	3.1	3.1	4.0	7.2	14.2	20.9
Deficit	3.1	4.4	4.3	4.6	1.9	-0.9	2.9	10.1	14.4	32.3	-1.3	19.9
Macro Itax												
(As % GDP)												
Current Revenue	0.6	0.6	0.6	0.6	0.6	0.9	0.7	0.6	0.6	0.7	0.6	0.6
Current Expenditure	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.5	0.6	0.3	0.3
Capital Expenditure	0.5	0.6	0.5	0.5	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Deficit	0.3	0.4	0.3	0.2	0.1	0.0	0.1	0.2	0.2	0.2	0.0	0.0

SOURCE: Ministry of Finance

TABLE 6.1.1 SUMMARY ACCOUNTS OF THE BANKING SYSTEM 1982-1985
(Billions \$Mex, end of year)

	1982	1983	1984	1985
<u>Foreign Assets</u>	343	1,084	2,081	3,167
<u>Domestic Credits</u>	7,720	12,042	16,190	31,699
Credit to the Public Sector	5,149	7,835	10,884	20,183
Federal Government	3,578	5,478	7,288	12,388
Public Government	1,573	2,357	3,596	7,825
Credit to the Private Sector	1,520	2,270	4,250	6,751
Unclassified Assets	1,051	1,807	3,056	4,755
<u>Foreign Liabilities</u>	3,128	4,842	6,803	13,867
<u>Liabilities to nonbank</u>				
<u>financial pub. sector</u>	231	453	759	1,238
<u>Money and quasi-money</u>	3,339	5,339	8,903	12,852
Money	993	1,402	2,286	3,449
Quasi-Money	2,346	3,937	6,617	9,403
<u>Capital and Surplus</u>	154	222	352	648
<u>Other Net Liabilities</u>	1,211	2,170	1,354	6,462

SOURCE: Bank of Mexico, "Indicadores de Moneda y Banca" and Bank Staff estimations.

TABLE 6.1.2 SUMMARY ACCOUNTS OF THE BANKING SYSTEM 1982-1985
(% of GDP)

	1982	1983	1984	1985
<u>Foreign Assets</u>	0.39	0.99	1.82	1.71
<u>Domestic Credits</u>	9.99	10.89	13.27	17.14
Credits to the Public Sector	5.72	7.18	7.84	10.82
Federal Government	3.87	4.98	5.31	6.88
Public Government	1.78	2.17	2.62	4.23
Credit to the Private Sector	1.89	2.99	3.19	3.88
Unclassified Assets	1.17	1.73	2.23	2.57
<u>Foreign Liabilities</u>	3.48	4.49	6.49	7.39
<u>Liabilities to nonbank</u>				
<u>Financial pub. sector</u>	0.29	0.42	0.85	0.67
<u>Money and quasi-money</u>	3.71	4.88	6.49	6.88
Money	1.10	1.27	1.67	1.87
Quasi-Money	2.61	3.58	4.83	5.09
<u>Capital and Surplus</u>	0.17	0.20	0.26	0.33
<u>Other Net Liabilities</u>	1.35	1.97	0.89	3.49

SOURCE: Bank of Mexico, "Indicadores de Moneda y Banca" and Bank Staff estimations.

TABLE 6.2 SELECTED MONETARY AGGREGATES 1977-1985
(Billions 9Mex, end of year)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
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A. Money (M1)	185.7	280.3	348.5	481.2	612.4	983.0	1402.4	2288.7	3540.2
Currency	88.8	114.8	149.8	184.7	281.8	503.8	877.8	1118.8	1771.0
Demand Deposits	107.1	145.5	198.9	286.5	330.6	489.2	724.6	1188.0	1789.2
B. Quasimoney in Domestic Currency	252.4	352.5	481.2	657.0	898.1	2160.1	3775.1	6370.9	8808.2
M2=M1+B	448.1	612.8	807.7	1118.2	1808.5	3153.1	5177.5	8657.6	12348.4
C. Quasimoney in Foreign Currency	73.1	87.2	140.3	183.5	358.4	188.0	182.4	409.3	657.4
Demand Deposits	13.8	15.4	22.1	30.2	42.8	18.3	27.1	34.3	127.3
Quasimoney	59.3	71.8	118.2	183.3	313.8	187.7	135.3	375.0	530.1
M3=M2+C	521.2	700.0	948.0	1311.7	1964.9	3338.1	5339.9	9068.9	13003.8
Memorandum Items									

M4=M2+C1	208.5	275.7	368.8	481.4	655.2	1011.3	1428.5	2321.0	3867.5
Monetary Base a/	283.3	377.0	508.2	718.1	1041.8	1883.4	3138.0	4834.1	5879.3

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a/ Includes currency and demand deposits in the hand of public plus the reserves of the commercial banks.

SOURCE: Bank of Mexico, "Indicadores Economicos".

TABLE 6.3.1 MEXICO BANKING SYSTEM: CREDIT BY SECTOR 1980-1985
(Millions of Mex, end of year)

Sectors	1980	1981	1982	1983	1984	1985
Total (I+II)	1,312,457.5	2,020,510.0	4,470,007.0	6,078,700.0	11,016,324.0	20,100,638.0
I. Organizations, Enterprises and Individuals	1,100,774.5	1,805,510.0	2,877,931.0	4,750,550.0	7,737,040.0	12,551,933.6
1. Agriculture, Mining, Forestry and Fishing	102,334.2	241,771.0	378,510.0	500,501.0	1,120,000.0	2,016,626.0
1.1. Agriculture	177,702.0	210,480.0	250,010.0	420,000.0	751,010.0	1,267,000.0
1.2. Mining	0,320.5	14,400.0	52,000.0	100,500.0	204,004.0	60,743.0
1.3. Other	0,311.1	0,290.0	32,400.0	30,200.0	70,500.0	148,000.0
2. Industries	447,323.0	600,120.0	1,438,000.0	2,210,102.0	3,414,204.0	6,351,444.0
2.1. Energy Industry	100,025.7	170,700.0	302,000.0	370,000.0	1,270,104.0	1,830,010.0
2.1.a. Petroleum	32,620.5	00,224.0	240,743.0	300,000.0	304,040.0	730,804.0
2.1.b. Electricity	70,200.2	112,500.0	341,700.0	574,100.0	004,101.0	1,203,854.0
2.2. Manufacturing Industry	280,030.0	380,240.0	710,024.0	1,100,040.0	1,047,414.0	3,025,730.0
2.2.a. Manufacturing	177,700.0	241,000.0	531,514.0	850,400.0	1,200,000.0	2,070,010.0
2.2.b. Production of Non-Metals	0,455.4	14,031.0	30,000.0	40,241.0	00,470.0	100,620.0
2.2.c. Production of Steel and other Minerals	01,420.1	100,000.0	114,070.0	100,010.0	300,004.0	070,307.0
2.2.d. Machinery and other Minerals	10,400.2	20,301.0	41,702.0	00,200.0	114,001.0	100,204.0
2.3. Construction Industry	70,457.5	104,000.0	104,000.0	100,200.0	000,000.0	000,100.0
3. Postal Interest Housing	00,000.4	00,072.0	00,700.0	100,100.0	000,000.0	000,000.0
4. Services and other Activities	202,704.0	300,174.0	070,212.0	1,200,700.0	1,010,770.0	3,100,001.0
4.1. Transportation	40,074.0	70,000.0	100,000.0	200,000.0	300,000.0	070,000.0
4.2. Communications	00,000.0	040.0	0,000.0	0,000.0	00,010.0	44,000.0
4.3. Entertainment	0,042.4	0,104.0	0,474.0	0,700.0	10,144.0	20,070.0
4.4. Banking Services Domestic	30,000.0	70,001.0	100,017.0	240,440.0	200,432.0	400,120.0
4.5. Banking Services Abroad	00,070.0	00,310.0	41,041.0	107,070.0	200,140.0	000,034.0
4.6. Other Financial Intermediaries	00,110.0	00,000.0	00,101.0	100,000.0	100,000.0	410,100.0
4.7. Tourism	10,007.4	17,000.0	30,040.0	40,040.0	07,000.0	107,070.0
4.8. Consumer Credits	00,000.0	71,000.0	00,000.0	100,000.0	271,000.0	010,400.0
4.9. Other Activities a/	40,000.0	01,000.0	107,000.0	200,100.0	001,000.0	300,700.0
5. Commerce	210,000.0	310,772.0	300,004.0	470,000.0	1,000,070.0	1,374,004.0
II. Government	140,000.0	004,000.0	1,001,000.0	0,007,100.0	0,070,070.0	7,000,000.0
1. Federal	120,047.0	004,100.0	1,000,000.0	0,000,000.0	0,140,070.0	7,412,071.0
2. Estatal	17,000.0	00,000.0	00,000.0	70,777.0	130,000.0	100,000.0
III. Financial Services	120,000.0	170,000.0	170,000.0	040,000.0	007,000.0	400,000.0
1. Development Banks	100,000.0	140,000.0	104,000.0	000,000.0	000,000.0	410,000.0
2. Commercial Banks	00,000.0	00,000.0	14,000.0	00,000.0	00,000.0	47,000.0

a/ Since 1984 "Other Activities" was disaggregated into Banking Services Abroad, Tourism and Consumer Credits.

SOURCE: Bank of Mexico, "Indicadores Económicos".

TABLE 0.2.0 MEXICO BANKING SYSTEM: CREDIT BY SECTOR 1980-1988
 (Shares based on current prices (1980))

Sector	1980	1981	1982	1983	1984	1985
Total (I+II)	100.0	100.0	100.0	100.0	100.0	100.0
I. Organizations, Enterprises and Individuals	80.1	82.1	84.2	87.8	79.2	82.3
1. Agriculture, Mining, Forestry and Fishing	14.7	11.0	0.4	0.8	10.0	10.0
1.1. Agriculture	12.0	10.0	0.0	0.1	7.1	0.0
1.2. Mining	0.0	0.7	1.0	1.0	2.1	0.0
1.3. Other	0.0	0.3	0.7	0.8	0.7	0.7
2. Industry	24.1	32.0	32.1	31.0	31.0	30.0
2.1. Energy Industry	0.0	0.0	12.0	12.0	11.0	0.0
2.1.a. Petroleum	0.0	0.0	0.0	0.0	0.0	0.0
2.1.b. Electricity	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Manufacturing Industry	20.4	19.0	10.1	10.0	10.0	10.0
2.2.a. Manufacturing	12.0	11.0	11.0	12.0	11.7	10.0
2.2.b. Production of Non-Metals	0.7	0.7	0.7	0.7	0.0	0.0
2.2.c. Production of Steel	0.0	0.0	0.0	0.0	0.0	0.0
2.2.d. Production of Other Metals and other Minerals	4.7	0.1	0.0	0.0	0.0	0.0
2.2.e. Machinery and other Minerals	1.0	1.0	0.0	0.0	1.0	0.0
2.2.f. Construction Industry	0.4	0.1	0.0	0.7	0.0	1.0
3. Social Interest Housing	2.7	2.4	2.0	2.4	2.1	2.2
4. Services and other Activities	21.0	10.0	10.0	12.2	10.0	10.7
4.1. Transportation	2.7	2.5	4.1	4.1	0.0	0.0
4.2. Communications	0.0	0.4	0.1	0.1	0.2	0.0
4.3. Government	0.4	0.4	0.1	0.1	0.1	0.1
4.4. Banking Services Deposits	2.0	2.0	2.0	2.0	2.7	2.0
4.5. Banking Services Abroad	1.0	2.2	0.0	2.4	0.0	0.0
4.6. Other Financial Intermediation	4.0	2.0	1.0	1.0	1.7	0.1
4.7. Tourism	1.0	0.0	0.7	0.0	0.0	0.0
4.8. Consumer Credit	4.1	2.5	1.0	1.0	2.5	2.0
4.9. Other Activities	2.0	1.0	0.0	0.0	2.7	1.0
5. Commerce	10.0	12.0	0.0	0.0	0.0	0.0
6. Government	10.0	17.0	22.0	22.4	20.0	27.7
1. Federal	0.0	10.0	24.0	22.0	22.0	20.0
2. Estatal	1.4	1.0	1.0	1.1	1.2	0.0
III. Financial Services	0.0	0.0	0.0	0.0	0.0	0.0
1. Development Banks	0.1	7.0	2.7	2.0	2.0	2.1
2. Commercial Banks	1.0	1.1	0.0	0.0	0.0	0.0

of since 1984 "Other Activities" was disaggregated into Banking Services Abroad, Tourism and Consumer Credit.

SOURCE: Bank of Mexico, "Indicadores Económicos".

TABLE 0.2.3 MEXICO BANKING SYSTEM: CREDIT BY SECTOR 1980-1985
[Millions Mex, 1976=100]

Sectors	1980	1981	1982	1983	1984	1985
Total	792,646.6	882,616.8	1,007,076.7	910,298.7	993,336.7	1,000,707.8
I. Organizations, Enterprises and Individuals	786,781.7	781,862.6	878,877.6	818,874.1	834,496.3	829,134.7
1. Agriculture, Mining, Forestry and Fishing	119,143.8	112,454.2	88,007.0	77,900.9	82,410.8	100,950.4
1.1. Agriculture	107,206.2	102,828.8	80,126.7	68,732.7	64,640.2	83,456.2
1.2. Mining	9,024.6	9,706.8	12,402.1	12,775.6	16,107.5	3,842.2
1.3. Other	2,913.1	4,348.8	7,001.2	4,007.9	6,442.8	7,218.8
2. Industries	270,122.8	212,099.4	220,872.2	269,201.0	276,986.4	260,914.4
2.1. Energy Industry	26,716.8	22,608.6	127,463.8	114,867.4	124,221.0	87,136.8
2.1.a. Petroleum	12,642.4	21,876.6	68,868.8	59,822.6	22,214.6	20,254.8
2.1.b. Electricity	40,872.6	22,822.1	28,847.2	74,844.4	72,507.1	60,222.2
2.2. Manufacturing Industry	181,050.2	161,248.2	168,873.8	168,234.7	181,521.8	181,636.6
2.2.a. Manufacturing	107,212.1	112,120.2	120,410.2	112,846.0	100,110.0	102,802.2
2.2.b. Production of Non-Metals and other Minerals	6,788.8	6,804.2	7,871.7	9,646.0	6,887.1	3,224.0
2.2.c. Machinery and other Minerals	27,094.2	40,222.4	27,026.1	23,876.1	20,220.5	24,222.5
2.2.d. Machinery and other Minerals	11,742.9	12,200.8	9,849.5	9,261.0	9,278.5	9,474.2
2.3. Construction Industry	42,646.8	48,844.7	21,746.8	24,178.0	23,872.8	15,241.7
3. Social Interest Housing	21,618.0	22,648.6	26,921.0	21,898.7	27,791.1	22,804.7
4. Services and other Activities	178,781.8	184,822.0	180,143.5	186,726.2	148,990.3	158,490.4
4.1. Transportation	22,020.0	22,172.2	42,163.2	27,722.4	21,873.5	22,504.0
4.2. Communications	100.0	222.2	722.1	1,221.2	1,712.2	2,222.7
4.3. Entertainment	2,242.8	2,642.2	1,022.2	1,222.4	1,222.2	1,222.2
4.4. Banking Services Domestic	22,122.2	24,422.2	24,122.2	22,222.2	24,473.7	24,727.1
4.5. Banking Services Abroad	14,222.2	20,222.2	0,272.2	21,222.1	21,222.0	22,222.1
4.6. Other Financial Intermediaries	22,072.4	24,027.0	21,024.2	15,027.7	15,422.1	20,721.2
4.7. Tourism	7,212.4	8,222.1	7,272.4	8,222.0	8,211.6	8,222.2
4.8. Consumer Credits	22,642.1	22,722.2	19,722.2	14,127.7	22,221.1	22,212.0
4.9. Other Activities a/	22,221.1	14,072.6	22,122.7	27,224.7	24,721.2	17,222.0
D. Commerce	127,144.2	147,241.7	72,222.2	61,427.6	64,222.2	60,247.2
II. Government	88,722.1	176,822.6	277,022.1	282,727.4	280,922.4	280,272.1
1. Federal	72,222.2	152,222.7	221,722.2	224,222.7	227,222.7	271,242.1
2. Estatal	16,722.2	14,122.2	16,222.2	8,722.7	11,022.7	9,222.2
III. Financial Services	78,222.2	78,822.2	42,122.2	21,222.2	21,722.2	22,122.2
1. Development Banks	24,222.2	22,222.2	22,712.1	22,270.1	22,221.2	22,222.2
2. Commercial Banks	14,271.2	18,121.1	8,227.2	4,722.2	2,422.2	2,224.2

a/ Since 1984 "Other Activities" was disaggregated into Banking Services Abroad, Tourism and Consumer Credits.

SOURCE: Bank of Mexico, "Indicadores Economicos".

TABLE 6.4.1 MONETARY AGGREGATES, MONTHLY AVERAGES 1975-1985
(In thousands of million of pesos)

	Currency	Demand Deposits d.m. a/	Demand Deposits f. m. b/	M1	M2	M3	M4	M5
1975	42.3	54.8	3.1	97.2	100.3	200.9	303.2	303.2
1976	55.5	84.0	8.3	119.5	125.8	233.7	363.8	363.8
1977	72.0	80.1	14.1	152.1	166.2	278.4	440.1	440.2
1978	81.4	115.3	13.7	203.7	217.3	335.1	594.4	600.3
1979	117.6	158.8	17.2	278.2	293.4	448.1	803.8	828.4
1980	154.3	212.1	23.8	366.3	389.9	614.4	1100.6	1146.5
1981	216.5	273.9	32.8	490.3	522.9	844.0	1604.5	1676.8
1982	342.1	383.8	43.7	706.7	749.4	1207.9	2617.4	2773.8
1983	480.7	543.3	17.8	1034.0	1051.8	2018.6	4126.2	4606.3
1984	747.3	840.2	28.4	1587.5	1615.9	4314.0	6956.9	7765.5
1985	1229.8	1280.4	60.5	2510.2	2570.7	7235.6	10458.6	12189.0

a/ Demand Deposits in domestic currency

b/ Demand deposits denominated in foreign currency

SOURCE: Bank of Mexico, "Indicadores Economicos" and Bank Staff estimations.

TABLE 6.4.2 MONETARY AGGREGATES, MONTHLY AVERAGES 1975-1985
[Thousand of million of pesos 1978=100]

	Currency	Demand Deposits d. m. a/	Demand Deposits f. m. b/	M1	M2	M3	M4	M5
1975	74.1	86.2	5.5	170.3	175.8	352.0	531.3	531.3
1976	83.7	87.3	9.2	181.0	190.2	355.8	553.5	553.5
1977	84.8	83.8	10.8	178.4	185.0	328.2	518.3	518.5
1978	88.2	115.1	13.7	203.3	217.0	334.7	593.3	589.3
1979	98.4	134.0	14.8	233.4	247.8	373.5	678.8	687.8
1980	103.2	141.7	15.7	244.8	260.8	410.8	735.7	768.1
1981	113.1	143.3	17.0	256.5	273.5	441.4	837.1	874.9
1982	112.9	121.1	15.8	233.8	248.9	428.8	872.5	922.0
1983	80.8	88.0	2.8	189.8	172.7	331.4	874.7	752.1
1984	73.5	82.7	2.8	158.2	159.0	420.0	684.2	763.8
1985	78.7	80.0	3.8	158.7	160.3	456.8	855.4	762.8

a/ Demand Deposits in domestic currency

b/ Demand deposits denominated in foreign currency

SOURCE: Bank of Mexico, "Indicadores Economicos" and Bank Staff estimations.

TABLE 8.5 MONETARY AGGREGATES 1975-1985 a/
(As proportion of GDP, in current prices)

	M1/GDP	M2/GDP	M3/GDP	M4/GDP	M5/GDP
1975	8.8	9.1	18.3	27.8	27.8
1976	8.7	9.2	17.0	26.5	26.5
1977	8.2	9.0	15.1	23.8	23.8
1978	8.7	9.3	14.3	25.4	25.7
1979	9.0	9.8	14.8	26.2	26.9
1980	8.8	9.1	14.4	25.7	26.8
1981	8.3	8.9	14.4	27.3	28.5
1982	7.5	8.0	13.8	27.8	29.5
1983	8.0	8.1	11.8	24.1	26.9
1984	5.5	5.8	15.0	24.2	27.0
1985	5.5	5.6	15.9	22.9	26.7

a/ The annual figure of each monetary aggregate was calculated as the average of monthly figures.

SOURCE: Bank of Mexico, "Indicadores Economicos" and Bank Staff estimations.

TABLE 7.1 COMPARISON BETWEEN GDP DEFlator AND CPI MEXICO 1980-1988
 [1980 = 100]

Year	1980	1981	1982	1983	1984	1985	1988 or
GDP Deflator	100.0	127.2	203.1	394.1	637.8	834.6	NA
CPI	100.0	128.0	203.3	410.5	679.2	1071.8	1822.3
Change in GDP deflator (%)	28.7	27.2	61.2	82.1	61.8	64.4	NA
Change in CPI (%)	28.3	28.9	68.8	101.8	65.5	57.8	42.1
Index							
Deflator for Tradeable	100.0	128.7	233.8	431.8	737.8	1139.4	1823.4
Deflator for Non-tradeable	100.0	128.2	218.8	399.7	638.8	828.8	1412.4
Change in Tradeable Index	29.7	39.8	100.8	84.7	48.2	39.2	
Change in Non-tradeable Index	32.2	61.0	87.8	69.8	68.3	41.8	
Trade/Non-Trade	0.8	1.0	1.3	1.4	0.8	0.9	

or first quarter 1988.
 SOURCE: Bank of Mexico, "Indicadores Económicos" and Bank Staff Estimates.

Table 7.2.1 MEXICO CONSUMER PRICE INDEX 1976-1988
(1976=100)

Period	Averages												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1976	85.9	80.3	81.8	83.5	83.0	82.4	83.7	84.3	84.8	87.0	70.8	74.0	75.9
1977	85.1	78.2	80.0	81.4	82.8	83.3	84.3	85.3	87.0	88.8	89.3	90.2	91.8
1978	100.0	83.5	84.9	85.8	88.9	87.9	88.2	100.9	101.8	103.1	104.3	106.4	108.3
1979	119.2	110.0	111.8	113.1	114.2	115.7	116.9	118.4	120.1	121.8	123.7	125.3	127.8
1980	149.3	133.8	138.8	138.7	142.1	144.4	147.3	151.4	154.8	158.3	158.8	161.4	163.8
1981	191.1	171.0	175.2	178.9	182.9	183.7	188.3	191.8	193.6	199.2	203.8	207.5	213.1
1982	303.8	223.7	232.5	241.0	254.1	268.4	281.3	285.8	328.0	348.5	384.8	382.8	423.8
1983	612.9	489.8	488.1	519.1	582.0	575.9	587.7	627.3	651.8	671.7	694.0	734.7	769.1
1984	1014.1	814.8	857.8	884.5	933.2	984.1	998.0	1031.8	1081.1	1082.7	1130.8	1189.7	1219.4
1985	1589.7	1309.8	1384.2	1417.1	1480.7	1485.3	1532.8	1589.2	1635.5	1721.8	1787.0	1838.5	1888.7
1986	2480.8	2173.3	2289.9	2375.4	2489.4	2639.4	2808.3						

MONTHLY CHANGE IN CPI

Period	Averages												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1977	29.9	3.0	2.3	1.8	1.5	0.8	1.2	1.2	2.0	1.8	0.8	1.0	1.4
1978	17.8	2.2	1.5	0.8	1.1	1.0	1.3	1.7	1.0	1.2	1.2	1.1	0.8
1979	18.2	3.5	1.5	1.3	1.0	1.3	1.0	1.3	1.4	1.2	1.7	1.3	1.8
1980	26.3	4.9	2.3	2.0	1.7	1.8	2.0	2.8	2.1	1.1	1.5	1.8	2.8
1981	28.0	3.3	2.5	2.1	2.2	1.5	1.4	1.8	2.1	1.8	2.2	1.9	2.7
1982	58.8	5.0	3.9	3.7	5.4	5.8	4.8	5.2	11.2	5.3	5.2	5.0	10.7
1983	101.8	10.9	5.4	4.8	6.9	4.3	3.8	5.0	3.9	3.1	3.3	5.9	4.3
1984	85.5	8.4	5.3	4.3	4.3	3.3	3.8	3.3	2.8	3.0	3.5	3.4	4.2
1985	57.7	7.4	4.2	3.9	3.1	2.4	2.5	3.5	4.4	4.0	3.8	4.8	6.8
1986	53.8	8.8	4.4	4.8	5.2	5.6	6.4						

12 MONTH CHANGES IN CPI
(Month to Month)

Period	Averages												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1977	29.2	29.7	29.2	30.2	31.1	33.8	32.3	32.7	34.3	32.2	29.1	21.9	20.8
1978	17.8	18.8	18.8	17.7	17.3	17.8	17.7	18.3	17.1	18.4	18.8	18.8	18.2
1979	18.2	17.8	17.8	18.1	17.8	18.2	17.8	17.3	17.9	17.9	18.8	18.9	20.0
1980	26.3	21.8	22.7	23.5	24.4	24.8	26.0	27.9	28.7	28.5	28.2	28.8	29.8
1981	28.0	27.8	28.0	28.1	28.7	28.8	27.8	28.8	28.5	27.4	28.4	28.8	28.7
1982	58.8	30.8	32.7	34.7	38.8	44.5	48.4	54.4	68.2	73.9	79.0	84.5	98.9
1983	101.8	110.1	112.8	115.4	117.2	114.8	112.5	112.1	108.1	83.9	80.4	91.9	80.8
1984	85.5	73.4	73.3	72.3	69.1	67.4	67.1	64.5	62.8	62.7	63.0	68.2	59.2
1985	57.7	60.8	59.0	58.4	58.5	55.1	53.4	53.7	56.0	57.8	58.0	58.8	63.7
1986	NA	65.9	68.4	67.6	71.1	78.8	83.2						

SOURCE: Bank of Mexico, "Indicadores Economicos", several issues.

TABLE 7.2.2: CONSUMER PRICE INDEX , TRADABLE ITEMS a/
(1970=100)

Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Averages													
1976	66.2	61.2	62.0	62.6	63.0	63.3	63.6	64.0	64.3	67.2	71.2	74.8	77.0
1977	86.1	79.5	80.6	81.9	83.5	84.2	85.3	86.4	88.1	89.6	90.2	91.2	92.3
1978	100.0	93.2	94.1	95.3	96.6	97.8	99.5	101.6	102.3	103.2	104.4	105.6	106.4
1979	117.8	109.8	111.0	112.2	113.3	115.3	116.7	118.1	119.9	121.3	123.4	125.0	126.9
1980	148.1	132.5	135.3	137.9	140.4	143.0	146.4	151.1	154.4	155.7	157.2	159.7	163.9
1981	186.4	167.8	171.0	174.3	178.3	181.3	183.8	187.1	191.0	194.5	198.5	202.1	207.1
1982	297.7	217.8	224.8	232.8	246.1	260.5	271.6	286.4	322.5	341.2	360.9	380.7	426.8
1983	623.8	469.0	495.9	522.8	559.9	587.1	609.2	640.8	664.6	684.1	708.4	755.7	787.5
1984	1052.2	835.5	877.2	916.3	963.9	999.9	1038.0	1072.7	1103.2	1133.8	1178.0	1224.8	1282.9
1985	1671.8	1376.5	1429.5	1487.7	1533.3	1567.2	1603.1	1654.7	1726.6	1785.0	1856.3	1946.6	2094.8
1986	2361.1	2258.4	2353.3	2471.7									

MONTHLY CHANGES IN CPI TRADABLE ITEMS

Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Averages													
1977	30.1	0.2	1.4	1.5	2.0	0.8	1.4	1.3	1.9	1.8	0.6	1.2	1.1
1978	16.2	1.0	1.0	1.3	1.3	1.3	1.7	2.1	0.7	0.9	1.1	1.1	0.8
1979	17.7	3.1	1.1	1.1	1.0	1.8	1.2	1.2	1.5	1.1	1.8	1.2	1.5
1980	25.8	4.4	2.1	2.0	1.8	1.8	2.4	3.2	2.1	0.8	1.0	1.6	2.6
1981	25.8	2.4	1.9	1.9	2.3	1.7	1.4	1.8	2.1	1.9	2.1	1.8	2.5
1982	59.7	5.2	3.2	3.5	5.7	5.8	4.3	5.5	12.6	5.8	5.8	5.5	12.1
1983	109.5	9.9	5.7	5.4	7.1	4.9	3.8	5.2	3.7	2.9	3.5	6.7	4.2
1984	68.7	6.1	5.0	4.5	5.2	3.7	3.8	3.3	2.8	2.8	3.9	4.0	4.8
1985	58.9	7.3	3.9	4.1	3.1	2.2	2.3	3.2	4.3	3.4	4.0	4.9	7.6
1986	...	7.8	4.2	5.0									

YEAR CHANGES IN CPI TRADABLES ITEMS
(Month to Month)

Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Averages													
1977	30.1	30.0	30.1	30.9	32.6	33.0	34.3	35.0	37.0	33.5	26.8	21.9	19.8
1978	16.2	17.2	16.7	16.4	15.7	16.2	16.6	17.5	16.2	15.2	15.7	15.7	15.3
1979	17.7	17.8	18.0	17.7	17.4	17.9	17.3	16.3	17.2	17.5	18.2	18.4	19.2
1980	25.8	20.7	21.9	22.9	23.9	24.0	25.5	28.0	28.7	28.4	27.3	27.8	29.2
1981	25.8	26.7	26.4	26.4	27.0	26.8	25.5	23.8	23.7	24.9	26.3	26.5	26.4
1982	59.7	29.8	31.5	33.5	38.0	43.7	47.8	53.1	68.9	75.4	81.8	88.4	106.1
1983	109.5	115.3	120.6	124.6	127.5	125.3	124.3	123.7	106.1	100.5	96.3	98.5	84.5
1984	68.7	78.1	76.9	75.3	72.2	70.3	70.4	67.4	66.0	65.7	66.3	62.1	62.9
1985	58.9	64.8	63.0	62.4	59.1	56.7	54.4	54.3	56.5	57.4	57.6	58.9	63.3
1986	...	64.1	64.6	66.1									

a/ Durables and non-durables goods were considered as tradables.

Includes controlled and non controlled items of the CPI basket.

SGJPC: Bank of Mexico

TABLE 7.2.3 CONSUMER PRICE INDEX , NON-TRADABLE ITEMS 1980-1989 a/
(1980=100)

Period	Averages	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1980	100.0	99.2	91.0	93.7	95.4	97.0	98.5	100.0	103.0	104.4	108.0	109.8	111.1
1981	132.2	110.9	119.0	122.0	125.2	127.5	128.7	132.0	136.4	139.1	141.0	145.0	149.7
1982	212.8	159.8	184.0	171.0	160.7	181.7	204.3	214.7	230.0	241.1	251.7	269.2	282.0
1983	399.7	310.4	330.8	343.8	380.4	372.2	388.5	407.3	426.3	440.2	451.7	469.3	482.4
1984	638.0	590.0	654.4	670.0	689.1	694.0	698.1	647.1	667.4	691.7	709.0	728.4	750.5
1985	998.0	780.2	899.0	827.3	889.2	824.4	833.0	888.0	1041.5	1100.3	1137.8	1189.7	1239.4
1989	847.45	1399.0	1415.3	1499.1	1829.0	1899.2							

MONTHLY CHANGES IN CPI NON-TRADABLE ITEMS

Period	Averages	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1980	NA	NA	2.0	2.1	1.9	1.8	1.6	2.2	2.4	1.4	2.1	1.9	2.3
1981	22.2	4.7	3.1	2.2	3.1	1.9	1.7	2.5	2.0	2.0	2.0	2.2	3.3
1982	61.0	4.0	5.1	4.2	5.2	0.0	0.0	5.1	7.4	4.5	4.4	4.0	7.4
1983	97.0	12.0	4.5	3.0	4.0	3.3	4.4	4.0	4.7	3.2	2.0	3.7	4.7
1984	229.0	0.0	0.5	3.0	2.3	2.7	3.5	3.4	3.1	3.0	2.0	2.4	3.3
1985	229.3	0.3	4.8	3.7	3.9	3.1	3.2	4.4	4.0	5.0	3.4	4.2	4.4
1989	...	9.9	4.5	3.7									

12 MONTH CHANGES IN CPI NON-TRADABLES ITEMS
(Month to Month)

Period	Averages	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1981	32.2	30.4	30.7	30.2	31.0	31.5	31.0	32.0	32.4	33.2	33.1	33.5	34.0
1982	61.0	34.0	37.8	40.1	44.4	50.3	57.5	61.5	66.1	73.3	77.4	81.5	89.7
1983	97.0	101.7	100.0	100.2	99.4	94.2	90.2	89.7	84.8	82.0	79.5	78.0	73.0
1984	229.0	64.8	67.0	67.5	69.5	62.5	61.2	59.0	59.0	57.1	57.1	55.1	53.0
1985	229.3	83.0	80.9	80.0	82.1	82.0	82.3	83.0	86.1	89.1	90.3	89.2	85.0
1989	NA	60.0	60.2	60.3									

a/ Non-tradable defined as the services items of the CPI basket; which prices are market determined.

SOURCE: Bank of Mexico

TABLE 7.2.4 CONSUMER PRICE INDEX, TRADABLE ITEMS 1980-1988 a/
(1980=100)

Period	Averages	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1980	100.0	80.7	81.7	83.4	84.8	86.4	88.7	101.8	103.5	104.4	103.2	107.9	110.8
1981	128.7	114.4	116.5	118.7	122.8	124.2	126.8	129.2	132.0	135.3	137.8	140.9	146.5
1982	208.9	148.9	155.1	161.7	172.8	183.9	189.1	203.1	221.0	238.2	247.8	253.8	284.5
1983	431.8	318.8	342.8	364.27	384.8	405.2	424.2	448.7	469.1	478.4	488.9	516.5	542.8
1984	797.8	578.8	608.1	638.2	667.4	719.8	741.4	768.1	788.7	814.7	831.7	883.3	1455.4
1985	1168.4	848.0	883.2	1038.0	1069.0	1088.8	1117.8	1157.8	1209.2	1253.8	1307.5	1361.0	1455.4
1988	1716.8	1388.8	1618.0	1688.4	1787.1	1818.8							

MONTHLY CHANGES IN CPI TRADABLE ITEMS

Period	Averages	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1980	NA	NA	1.2	1.8	1.8	1.8	2.3	3.2	1.1	0.8	1.7	1.8	2.4
1981	28.7	3.5	1.8	2.7	2.1	1.8	1.8	2.1	2.2	2.5	1.8	2.3	3.2
1982	58.9	2.8	3.9	4.2	8.8	8.2	4.8	8.7	8.8	6.4	8.4	8.3	8.0
1983	108.8	12.3	7.3	12.3	5.3	4.7	5.3	3.7	2.9	3.5	5.2	4.8	-4.4
1984	84.7	8.8	5.2	9.8	3.2	3.8	3.8	3.8	2.8	3.2	4.5	5.2	62.4
1985	48.2	-34.9	3.7	4.5	3.8	2.3	2.8	3.8	4.4	3.7	4.3	5.8	5.4
1988	NA	8.8	4.0	4.8									

YEAR CHANGES IN CPI TRADABLES ITEMS
(Month to Month)

Period	Averages	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1981	28.7	28.2	27.0	28.2	28.8	28.8	28.2	28.8	27.5	28.5	29.7	30.8	31.7
1982	58.9	30.5	33.1	35.1	41.2	47.8	51.8	57.2	67.4	73.8	79.8	86.8	88.8
1983	108.8	114.1	121.0	130.0	134.7	131.4	132.5	128.0	118.5	108.8	109.2	108.8	80.7
1984	84.7	80.8	77.4	73.1	68.7	66.3	68.0	65.9	68.8	65.3	64.2	65.2	188.2
1985	48.2	84.0	81.7	84.3	84.8	82.8	80.8	80.7	83.1	83.8	83.5	84.1	8.0
1988	NA	84.1	84.8	85.0									

a/ Tradeables were defined as all the goods in the CPI basket which prices were not controlled.

SOURCE: Bank of Mexico

TABLE 7.2.5 CONSUMER PRICE INDEX, CONTROLLED ITEMS 1978-1985 a/
(1978=100)

Period	Averages												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1978	89.5	84.3	85.3	85.4	85.5	85.8	85.7	85.9	86.0	86.1	73.4	77.4	78.4
1977	89.2	82.4	83.7	84.9	88.3	88.9	87.3	88.1	89.4	91.5	92.1	92.9	93.2
1976	100.0	95.0	95.9	96.5	97.4	97.9	99.0	100.8	101.7	102.6	103.9	104.5	105.4
1975	114.9	109.3	110.1	110.7	111.5	112.9	113.5	114.6	116.0	116.8	119.4	121.1	122.9
1980	142.1	126.8	129.7	131.8	134.1	136.5	140.4	145.9	148.9	149.9	150.9	153.4	157.6
1981	172.7	162.0	163.7	165.3	168.0	170.1	171.3	172.4	174.4	176.1	178.6	182.4	187.5
1982	260.2	205.8	209.8	215.5	226.1	238.9	248.9	258.6	311.5	328.8	342.0	357.2	424.8
1983	384.7	480.8	482.7	503.1	541.5	556.3	568.2	604.0	625.9	644.3	685.5	731.1	785.5
1984	1027.0	803.1	847.1	884.8	848.9	989.9	1029.1	1058.8	1088.4	1099.9	1153.9	1182.9	1254.7
1985	1603.4	1385.8	1468.1	1501.8	1528.1	1183.3	1579.2	1611.3	1681.5	1711.7	1775.0	1840.7	2030.3

MONTHLY CHANGES IN CPI CONTROLLED ITEMS

Period	Averages												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1977	29.8	3.8	1.8	1.4	1.7	0.7	0.7	0.7	1.5	2.4	0.7	0.9	0.3
1978	13.3	1.8	0.8	0.9	0.5	0.4	1.2	1.6	1.1	0.9	1.3	0.8	0.8
1975	14.8	3.7	0.7	0.9	0.7	1.2	0.8	1.0	1.2	0.7	2.2	1.4	1.5
1980	29.7	3.2	2.3	1.2	1.7	1.8	2.9	3.9	2.1	0.5	0.8	1.7	2.7
1981	21.5	2.8	1.0	1.0	1.8	1.2	0.7	0.8	1.2	1.0	2.0	1.6	2.8
1982	62.2	9.6	2.0	2.7	4.9	5.5	3.5	4.8	20.4	4.8	5.0	4.4	16.9
1983	112.2	8.5	4.7	4.2	7.8	2.7	1.8	8.7	3.8	2.9	3.3	9.9	3.3
1984	72.7	6.3	5.5	4.5	6.9	4.7	3.9	2.8	1.1	2.8	5.0	3.4	5.2
1985	56.1	11.3	4.2	3.2	1.7	-24.5	38.7	2.2	3.1	3.0	3.7	3.7	10.3

12 MONTH CHANGES IN CPI CONTROLLED ITEMS
(Month to Month)

Period	Averages												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1977	28.8	28.1	28.2	29.8	31.8	32.8	33.2	33.7	35.5	34.4	25.8	20.0	17.4
1978	19.3	15.3	14.2	13.7	12.8	12.5	13.1	14.2	13.8	12.1	12.8	12.5	13.1
1975	14.9	18.1	18.2	14.7	14.5	15.3	14.6	13.9	14.1	13.8	14.9	15.9	16.8
1980	29.7	16.0	17.8	19.1	20.3	21.0	23.7	27.3	28.4	26.1	26.4	26.7	29.2
1981	21.5	27.8	26.2	25.4	25.3	24.6	22.0	18.2	17.1	17.7	19.0	18.9	19.0
1982	62.2	27.0	28.2	30.4	34.6	40.3	44.1	50.1	78.6	85.0	90.4	95.8	123.5
1983	112.2	124.0	130.0	133.5	139.5	133.2	129.3	133.4	100.9	87.8	84.8	104.7	77.9
1984	72.7	74.2	78.5	75.9	74.7	77.9	81.8	74.9	70.7	70.5	73.3	83.2	66.1
1985	56.1	73.8	71.8	68.7	61.5	16.5	33.3	52.5	55.5	55.6	53.6	54.3	61.8

a/ Includes all the components of the CPI basket which prices are set by the government.

SOURCE: Bank of Mexico, Department of Prices.

TABLE 7.2.6 CONSUMER PRICE INDEX, NON-CONTROLLED ITEMS 1976-1985
(1976=100)

Period	Averages												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1976	84.8	89.1	80.3	81.2	81.8	88.3	88.7	83.4	84.2	88.5	89.5	72.4	74.1
1977	83.9	75.9	79.1	78.3	79.8	80.8	82.0	83.0	88.4	88.5	88.8	89.4	80.3
1978	100.0	83.1	84.4	88.4	88.3	98.0	89.1	100.4	101.7	102.8	104.7	106.1	107.8
1979	120.0	110.5	112.5	114.4	115.7	117.3	118.9	120.5	122.5	124.3	126.2	127.7	130.1
1980	153.4	137.7	140.8	144.1	148.8	148.9	151.2	154.5	157.7	160.0	162.9	165.9	170.0
1981	201.3	176.0	181.6	189.5	181.3	184.4	187.8	202.4	207.4	212.2	217.1	221.6	227.5
1982	319.9	234.9	245.8	255.7	269.9	285.3	300.4	316.2	341.4	360.7	379.8	399.9	429.8
1983	631.8	481.9	509.1	538.4	588.8	598.0	623.3	648.0	674.9	688.9	719.3	747.9	783.4
1984	1022.8	833.4	875.4	913.2	940.8	983.2	999.0	1034.4	1073.5	1106.1	1139.4	1178.4	1219.5
1985	1804.4	1284.8	1337.5	1384.3	1447.7	1487.7	1533.3	1597.0	1678.3	1733.4	1820.0	1812.8	2008.4

MONTHLY CHANGES IN CPI NON-CONTROLLED ITEMS

Period	Averages												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1977	28.5	2.4	2.9	1.5	0.8	1.0	1.7	1.2	2.9	1.5	2.9	0.8	1.0
1978	20.1	3.1	1.4	1.1	0.9	1.9	1.1	1.3	1.3	1.1	1.8	1.3	1.8
1979	20.1	2.5	1.8	1.7	1.1	1.4	1.4	1.3	1.7	1.5	1.8	1.2	1.8
1980	27.7	5.8	2.3	2.3	1.7	1.8	1.8	2.2	2.1	1.5	1.8	1.8	2.5
1981	31.3	3.5	3.2	2.7	2.8	1.8	1.7	2.3	2.5	2.3	2.3	2.1	2.7
1982	58.1	3.2	4.7	4.0	5.8	5.7	5.3	5.3	8.0	5.7	5.2	5.3	7.8
1983	88.5	12.1	8.8	8.2	5.7	5.2	4.8	4.1	4.0	3.2	3.3	4.0	4.7
1984	81.9	8.4	8.2	4.2	3.0	2.8	3.5	3.5	3.8	3.0	2.7	3.4	3.8
1985	59.9	5.4	4.1	4.2	3.8	2.8	3.1	4.2	5.0	4.8	3.9	5.1	5.0

12 YEAR CHANGES IN CPI NON-CONTROLLED ITEMS
(Month to Month)

Period	Averages												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1977	28.5	28.4	29.5	28.8	29.1	29.4	30.8	30.8	33.0	30.1	27.9	29.5	21.9
1978	20.1	22.7	20.9	20.3	20.7	21.5	20.9	21.0	19.1	18.8	17.9	18.7	19.4
1979	20.1	18.7	18.2	18.9	20.1	19.7	20.0	20.0	20.5	20.9	20.5	20.4	20.7
1980	27.7	24.6	25.2	26.0	26.7	26.9	27.2	28.2	29.7	28.7	29.1	29.9	30.7
1981	31.3	27.8	28.9	29.4	30.5	30.8	30.8	31.0	31.5	32.9	33.9	33.7	33.8
1982	58.1	39.4	38.4	37.1	41.1	48.8	51.9	58.2	64.9	70.0	74.9	80.4	85.8
1983	88.5	105.2	107.1	108.4	108.9	109.8	107.5	108.2	97.7	89.0	88.5	87.1	82.3
1984	81.9	72.9	78.1	70.8	68.2	62.2	60.3	59.4	59.1	58.9	58.0	57.2	58.7
1985	59.9	54.2	52.9	52.7	53.9	54.1	53.5	54.4	53.2	53.5	50.9	52.7	54.7

a/ Non-controlled CPI is calculated with all the components of the CPI basket which prices are market determined.

SOURCE: Bank of Mexico, Department of Prices.

TABLE 7.2.1 AVERAGE RATE OF EXCHANGE 1978-1988
(Pesos per US\$)

	1978-80	1980	1981	1982		1983		1984		1985		1986	
	(a)	(a)	(a)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Average Year	10.84	22.08	24.51	57.10	57.44	150.28	150.17	185.10	187.77	210.20	250.00	324.00	430.10
Monthly													
Jan		22.01	22.84	20.48	...	140.05	88.58	108.48	140.01	212.00	195.28	447.00	409.38
Feb		22.82	23.40	21.42	...	140.05	102.40	107.08	140.01	217.71	200.20	402.00	440.40
Mar		22.80	22.85	45.27	...	140.05	100.22	171.22	103.01	222.17	205.78	400.00	472.00
Apr		22.83	22.85	45.05	...	140.05	110.20	175.22	107.70	220.57	212.10	324.00	304.00
May		22.84	24.00	40.70	...	140.05	110.10	170.10	101.74	225.07	218.50	350.00	320.00
Jun		22.80	24.22	47.02	...	140.05	110.10	183.10	103.71	242.00	224.07	347.00	370.00
Jul		22.87	24.67	48.00	...	140.05	102.10	107.00	100.07	211.07	241.00		
Aug		22.02	24.77	52.75	50.50	140.05	100.10	101.12	170.70	222.37	205.02		
Sep		22.00	25.04	70.00	50.00	140.47	100.10	100.00	177.07	202.00	220.17		
Oct		22.00	25.20	70.00	50.00	151.24	104.10	100.05	101.00	402.07	318.10		
Nov		22.10	25.00	70.00	50.00	155.21	100.00	222.00	100.00	407.05	220.24		
Dec		22.10	25.01	100.00	57.72	150.27	100.00	207.40	100.00	400.40	257.24		

a/ Free market Rate
b/ Controlled Rate

SOURCE: Bank of Mexico, "Indicadores Económicos".

TABLE 7.3.2 EFFECTIVE EXCHANGE RATE 1980-1988

	FREE EXCHANGE RATE (Pesos per \$US)					CONTROLLED EXCHANGE RATE (Pesos per \$US)				
	Q1	Q2	Q3	Q4	YEAR	Q1	Q2	Q3	Q4	YEAR
1980	22.8	22.9	23.0	23.1	23.0	22.8	22.9	23.0	23.1	23.0
1981	23.8	24.1	24.8	25.7	24.5	23.5	24.1	24.8	25.7	24.5
1982	34.4	48.8	67.4	80.1	67.2	34.4	48.8	66.0	66.8	48.3
1983	148.7	148.8	148.4	155.3	150.3	148.7	148.8	148.4	155.3	150.3
1984	167.3	178.2	191.1	203.2	185.8	148.8	161.7	173.7	185.8	167.8
1985	217.8	238.0	338.2	451.1	310.3	200.4	218.8	275.3	338.8	257.0
1988	472.3	575.7				438.8	538.8			

NOMINAL INDEX FREE EXCHANGE RATE
(1980=100)

	Q1	Q2	Q3	Q4	YEAR
1980	99.8	99.8	100.2	100.8	100.0
1981	102.4	105.0	108.0	111.8	108.8
1982	148.8	203.8	283.8	348.2	248.1
1983	848.0	847.8	848.8	878.7	854.7
1984	728.1	780.7	832.7	854.3	808.8
1985	948.3	1028.2	1484.8	1885.5	1382.0
1988	2088.1	2508.4			

NOMINAL INDEX CONTROLLED EXCHANGE RATE
(1980=100)

	Q1	Q2	Q3	Q4	YEAR
1980	99.8	99.8	100.2	100.8	100.0
1981	102.4	105.0	108.0	111.8	108.8
1982	148.8	203.8	244.0	263.8	210.3
1983	848.8	847.8	848.8	878.7	854.7
1984	653.2	704.8	788.8	808.4	721.0
1985	673.4	832.3	1188.5	1483.4	1118.8
1988	1811.8	2281.2			

REAL INDEX OF FREE EXCHANGE RATE a/
(1980=100)

	Q1	Q2	Q3	Q4	YEAR
1980	103.7	101.8	99.0	97.2	100.0
1981	97.8	98.8	98.7	97.2	98.3
1982	121.8	148.4	181.2	188.8	158.8
1983	288.8	225.0	208.3	188.8	224.2
1984	167.8	157.4	158.7	154.8	158.8
1985	181.1	144.8	181.2	213.0	174.8
1988	183.1				

REAL INDEX OF CONTROLLED EXCHANGE RATE a/
(1980=100)

	Q1	Q2	Q3	Q4	YEAR
1980	103.7	101.8	98.0	97.2	100.0
1981	97.8	98.8	98.7	97.2	98.3
1982	121.8	148.4	180.5	130.4	137.0
1983	288.8	225.0	208.3	188.8	224.2
1984	180.4	142.1	144.2	141.4	144.8
1985	138.1	133.8	188.5	157.5	148.7
1988	178.4				

a/ This index has been constructed as the ratio of a weighted average of wholesale price indexes of Mexico's 10 major trade partners (defined by the value of imports from them), expressed in pesos, to Mexico's producer price index.

SOURCE: IMF : International Financial Statistics, Bank of Mexico and Bank Staff estimates.

TABLE 7.4.1 SELECTED NOMINAL INTEREST RATE FOR MEXICO AND UNITED STATES 1977-1989 a/

Year	Mexico				United States				Covered interest rates differential b/
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
1977	12.81	12.82	12.82	12.82	6.7	4.9	7.5	8.0	
1978	14.82	13.82	13.82	13.82	8.2	4.7	4.8	7	
1979	14.82	14.82	14.82	14.82	8.2	8.2	11.8	10.5	
1980	21.82	22.77	22.77	22.77	8.8	8.8	12.8	10.8	
1981	20.82	21.82	21.82	21.82	8.8	11.7	13.4	18.2	
1982	28.82	28.82	28.82	28.82	-14.8	-11.2	-11.1	-29.2	
1983	30.82	30.82	30.82	30.82	-31.8	31.8	31.8	42.4	
1984	30.81	47.82	47.82	47.82	27.7	21.8	22.4	24.4	
1985	47.82	50.82	50.82	50.82	25.0	28.8	28.8	-30.2	
1986	78.10				20.2				
1977	14.82	14.82	14.82	14.82	5.82	5.82	5.82	5.82	
1978	15.82	15.82	15.82	15.82	7.02	7.5	8.7	8.4	
1979	18.82	18.82	18.82	18.82	8.22	8.2	8.2	8.4	
1980	12.82	12.82	12.82	12.82	11.12	11.12	11.12	11.12	
1981	14.72	14.72	14.72	14.72	10.82	10.82	10.82	10.82	
1982	13.82	13.82	13.82	13.82	11.22	11.22	11.22	11.22	
1983	9.82	9.82	9.82	9.82	9.42	9.42	9.42	9.42	
1984	9.81	11.82	11.82	11.82	11.24	11.24	11.24	11.24	
1985	8.82	7.82	7.82	7.82	7.82	7.82	7.82	7.82	
1986	8.82	8.82	8.82	8.82	7.54	7.54	7.54	7.54	
1987	7.22	7.22	7.22	7.22	7.22	7.22	7.22	7.22	
1977	17.82	17.82	17.82	17.82	8.82	8.82	8.82	8.82	
1978	17.82	17.82	17.82	17.82	7.77	7.77	7.77	7.77	
1979	18.82	18.82	18.82	18.82	8.22	8.22	8.22	8.22	
1980	13.82	13.82	13.82	13.82	10.12	10.12	10.12	10.12	
1981	13.82	13.82	13.82	13.82	9.72	9.72	9.72	9.72	
1982	14.82	14.82	14.82	14.82	11.82	11.82	11.82	11.82	
1983	8.24	8.24	8.24	8.24	8.24	8.24	8.24	8.24	
1984	10.82	10.82	10.82	10.82	12.82	12.82	12.82	12.82	
1985	8.72	8.72	8.72	8.72	7.84	7.84	7.84	7.84	
1986	8.72	8.72	8.72	8.72	8.14	8.14	8.14	8.14	
1987	5.72	5.72	5.72	5.72	8.82	8.82	8.82	8.82	
1977	18.82	18.82	18.82	18.82	8.82	8.82	8.82	8.82	
1978	17.82	17.82	17.82	17.82	7.12	7.12	7.12	7.12	
1979	17.82	17.82	17.82	17.82	8.82	8.82	8.82	8.82	
1980	24.82	24.82	24.82	24.82	10.12	10.12	10.12	10.12	
1981	28.82	28.82	28.82	28.82	10.82	10.82	10.82	10.82	
1982	31.82	31.82	31.82	31.82	12.82	12.82	12.82	12.82	
1983	32.82	32.82	32.82	32.82	11.82	11.82	11.82	11.82	
1984	42.12	42.12	42.12	42.12	12.82	12.82	12.82	12.82	
1985	42.82	42.82	42.82	42.82	11.82	11.82	11.82	11.82	
1986	42.82	42.82	42.82	42.82	8.72	8.72	8.72	8.72	
1987	17.82	17.82	17.82	17.82	8.82	8.82	8.82	8.82	
1977	18.82	18.82	18.82	18.82	8.82	8.82	8.82	8.82	
1978	17.82	17.82	17.82	17.82	7.12	7.12	7.12	7.12	
1979	17.82	17.82	17.82	17.82	8.82	8.82	8.82	8.82	
1980	24.82	24.82	24.82	24.82	10.12	10.12	10.12	10.12	
1981	28.82	28.82	28.82	28.82	10.82	10.82	10.82	10.82	
1982	31.82	31.82	31.82	31.82	12.82	12.82	12.82	12.82	
1983	32.82	32.82	32.82	32.82	11.82	11.82	11.82	11.82	
1984	42.12	42.12	42.12	42.12	12.82	12.82	12.82	12.82	
1985	42.82	42.82	42.82	42.82	11.82	11.82	11.82	11.82	
1986	42.82	42.82	42.82	42.82	8.72	8.72	8.72	8.72	
1987	17.82	17.82	17.82	17.82	8.82	8.82	8.82	8.82	

a/ Interest rates shown are gross interest rates.

b/ Defined as 1 year (quarter), zero term nominal interest in Mexico

less nominal interest in USA

development rate in Mexico

Source: Bank of Mexico, "Estadísticas Financieras"

TABLE 7.4.2 SELECTED REAL INTEREST RATES FOR MEXICO 1977-1988 a/

Interest on 3 Month CDs									
Method I b/					Method II c/				
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
1977	-19.15	-4.53	-3.89	-2.49	1977	-5.32	-3.39	-3.19	-2.65
1978	-9.15	-0.88	-3.14	0.28	1978	-3.91	-3.76	-3.57	-4.16
1979	-9.01	-0.65	-0.75	-0.67	1979	-6.80	-6.45	-10.13	-7.84
1980	-14.02	-1.24	-5.55	3.89	1980	-5.23	-3.87	-3.83	-1.80
1981	-5.32	2.72	9.32	4.81	1981	-6.50	-6.97	-19.87	-28.28
1982	-12.38	-18.44	-29.00	-29.80	1982	-38.82	-39.88	-23.55	-19.78
1983	-36.89	-10.89	-1.80	-1.78	1983	-6.08	-3.00	-1.93	-1.84
1984	-17.28	-6.87	3.25	-0.55	1984	-2.83	-2.42	-3.02	-7.68
1985	-19.17	7.59	8.70	0.45	1985	-11.51	-11.82		
1986	-19.34								
Interest on 6 Month CDs									
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
1977	-17.87	-3.34	-2.30	-0.78	1977	-3.59	-2.18	-1.47	-0.93
1978	-4.49	0.87	-1.43	1.44	1978	-1.81	-2.07	-1.87	-3.07
1979	-9.21	0.22	-0.62	-0.65	1979	-6.79	-7.65	-10.02	-8.01
1980	-13.80	-0.85	-4.81	4.17	1980	-4.89	-3.59	-3.20	-1.33
1981	-4.55	3.90	10.30	8.03	1981	-1.71	-6.89	-18.13	-27.45
1982	-11.34	-17.98	-27.58	-29.35	1982	-33.17	-32.80	-23.12	-19.18
1983	-37.78	-11.38	-1.89	-1.80	1983	-7.21	-3.46	-1.58	-1.88
1984	-19.79	-8.71	1.07	-1.32	1984	-8.81	-4.55	-5.08	-9.40
1985	-19.18	4.12	7.89	0.12	1985	-11.83	-14.77		
1986	-15.68								
Interest on 12 Month CDs									
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
1977	-17.09	-2.15	-0.80	0.98	1977	-2.90	-0.88	0.23	0.78
1978	-2.84	2.82	0.27	3.20	1978	-0.41	-0.37	-0.17	-1.39
1979	-6.02	1.98	1.10	-1.04	1979	-4.16	-6.05	-9.48	-8.18
1980	-14.01	-0.11	-3.13	4.73	1980	-6.22	-2.87	-1.49	-0.81
1981	-3.84	5.13	10.49	8.87	1981	-0.88	-7.85	-18.04	-27.01
1982	-10.87	-18.63	-28.82	-28.18	1982	-34.80	-33.04	-24.53	-18.97
1983	-40.84	-18.55	-8.59	-5.14	1983	-11.82	-9.13	-8.81	-8.18
1984	-21.07	-12.28	-2.89	-4.87	1984	-7.31	-8.30	-8.79	-11.51
1985	-22.05	-1.59	-4.58	-15.29	1985	-14.88	-19.44		
1986	-29.53								
Quarterly Annualized Inflation					Actual Inflation rate				
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
1977	39.91	18.91	18.24	19.41	1977	18.81	17.31	17.25	18.81
1978	20.93	14.92	17.20	13.88	1978	17.77	17.88	17.72	19.18
1979	25.89	15.29	19.25	19.63	1979	22.82	25.09	28.38	28.84
1980	41.03	24.83	28.98	21.74	1980	27.85	28.38	28.84	28.84
1981	35.79	26.51	22.83	29.39	1981	32.77	44.33	65.84	87.83
1982	55.84	78.67	112.22	111.40	1982	112.87	114.88	100.82	87.40
1983	157.93	92.77	83.27	90.28	1983	78.97	87.84	83.31	90.38
1984	87.18	82.03	48.38	48.08	1984	59.37	84.88	88.80	80.80
1985	82.47	44.83	49.47	88.30	1985	83.87	77.04		
1986	1116.4								

a/ Real interest rates were calculated as: $r = (1+i/(1+p)) - 1$ where i = nominal interest rate, p = inflation rate.

b/ Here p is the quarterly annualized inflation rate, calculated as: $p = (CPI_{quarter t} / CPI_{quarter t-1}) - 1$
CPI = Consumer Price Index

c/ Here p is the actual rate of inflation for the period, calculated as: $p, year t = (CPI_{Q1, year t} / CPI_{Q1, year t-1}) - 1$
CPI_{Q1} = Consumer Price Index quarter t.

SOURCE: Bank of Mexico, "Indicadores Economicos" and Bank Staff estimations.

TABLE 8.1.1 PRODUCTION OF PRINCIPAL CROPS 1980-1985
 (In thousands of metric tons)

	1980	1981	1981	1983	1984	1985 p/
Beans	938	1331	943	1282	948	950
Maize	12374	14850	10029	13081	12910	13818
Rice	294	430	337	418	484	782
Sugarcane	38091	33183	34088	34109	35403	35658
Wheat	2788	3193	4462	3480	4805	5183
Chile (dry)	29	29	24	17	20	29
Chile (green)	727	981	700	818	828	820
Onion	337	305	375	420	414	475
Potato	1033	802	913	810	988	930
Copra	168	175	187	201	200	200
Cottonseed	1088	973	834	648	498	311
Peanut	73	87	69	100	87	NA
Safflower	480	338	221	277	189	353
Sesame	137	87	32	87	88	84
Soybeans	322	707	648	687	685	939
Apples	262	399	302	294	182	380
Avocado	481	481	488	480	424	480
Bananas	1438	1805	1572	1841	1850	1850
Grapes	444	516	598	603	640	680
Lemons	572	633	818	672	620	680
Mango	638	798	701	685	680	720
Orange	1748	1880	1995	2099	1750	1850
Peaches	188	191	185	133	185	180
Alfalfa (green)	17300	17800	18500	16744	18058	18800
Barley	930	581	398	557	618	538
Oats	84	94	71	251	181	200
Sorghum	4888	8088	4717	4848	5009	6840
Cacao	33	28	48	30	29	NA
Chickpea	105	80	70	108	110	90
Coffee	220	263	313	313	123	NA
Garlic	47	44	45	52	63	80
Tomatoes	1920	1310	648	1472	1575	NA
Halen	320	322	293	315	314	330
Strawberry	78	54	84	71	84	65
Hanoquen	68	65	73	30	41	NA
Cucumber	197	183	159	192	248	NA
Tobacco	94	58	87	53	42	70

p/ Preliminary

SOURCE: Secretario de Agricultura y Recursos Hidraulicos.

TABLE 8.1.2 PRODUCTION OF PRINCIPAL CROPS 1981-1988
(Rate of growth)

	1981	1981	1983	1984	1988 p/
Beans	42.4	-29.2	35.9	-26.2	0.4
Maize	17.6	-31.1	30.2	-1.2	7.0
Rice	49.9	-21.8	23.4	16.3	61.6
Sugarcane	-6.5	2.7	0.1	3.8	0.7
Wheat	14.8	39.7	-22.5	30.2	15.0
Chile (dry)	3.8	-17.2	-29.2	17.8	40.0
Chile (green)	-22.8	24.8	-12.0	-14.3	-1.5
Onion	-9.5	23.0	12.0	-1.4	14.7
Potato	-22.4	13.6	-11.3	21.7	-5.7
Copra	4.2	12.6	2.0	-0.5	0.0
Cottonseed	-10.4	-45.1	21.3	-32.4	-29.0
Peanut	19.2	-20.7	44.9	-19.0	NA
Safflower	-29.4	-34.8	25.3	-31.8	66.8
Sesame	-51.1	-62.2	171.9	-21.8	23.5
Soybeans	119.8	-8.3	6.0	-0.3	37.1
Apples	52.3	-24.3	-2.8	-39.1	67.6
Avocado	0.0	-1.3	-1.1	-5.8	15.6
Bananas	11.6	-2.1	4.4	0.5	0.0
Grapes	16.2	15.9	0.8	6.1	6.3
Lemons	10.7	29.2	-17.8	-7.7	9.7
Mango	24.8	-11.8	-2.3	0.7	4.3
Orange	4.4	9.6	3.7	-15.4	5.7
Peaches	1.1	-3.1	-29.1	48.6	-7.7
Alfalfa (green)	2.9	-7.3	1.5	7.8	2.4
Barley	4.0	-29.1	40.7	11.1	-13.1
Oats	46.9	-24.5	293.5	-27.9	10.5
Sorghum	29.8	-22.9	2.7	3.4	30.6
Cacao	-15.2	53.8	-30.2	-6.7	NA
Chickpea	-14.3	-22.2	54.3	1.9	-19.2
Coffee	19.5	19.0	0.0	-20.7	NA
Garlic	-6.4	2.3	15.8	21.2	-20.6
Tomatoes	-0.8	-50.9	128.2	7.0	NA
Melon	0.8	-9.0	7.5	-0.3	5.1
Strawberry	-30.8	0.0	31.6	-9.8	1.8
Mansquen	6.7	-23.2	-58.9	38.7	NA
Cucumber	-2.0	-17.8	20.8	28.1	NA
Tobacco	-38.3	15.5	-20.9	-20.8	68.7

p/ Preliminary

SOURCE: Secretaria de Agricultura y Recursos Hidraulicos.

TABLE 8.2.1 HARVESTED AREA OF PRINCIPAL CROPS 1980-1988
(In thousands of hectares)

	1980	1981	1981	1983	1984	1988 p/
Beans	1987	2408	2482	2218	2037	2288
Maize	7587	8700	8377	8581	7988	8478
Rice	184	193	207	167	148	219
Sugarcane	888	812	828	805	812	NA
Wheat	777	840	1011	907	1081	1168
Chile (dry)	21	24	20	14	27	NA
Chile (green)	61	48	62	48	43	NA
Onion	21	15	28	28	27	NA
Potato	80	88	88	74	71	NA
Coconut	133	138	147	188	188	NA
Cottonseed	355	348	200	232	308	NA
Peanut	62	78	88	83	78	NA
Safflower	438	474	228	483	254	408
Sesame	291	180	133	182	157	200
Soybeans	180	378	412	381	427	524
Apples	48	58	45	48	52	58
Avocado	54	58	58	58	58	57
Bananas	73	78	77	73	68	48
Grapes	48	84	57	58	63	70
Lemons	57	82	68	73	87	87
Mango	64	88	88	88	88	77
Orange	182	187	185	184	148	178
Peaches	24	28	27	27	32	28
Alfalfa (green)	241	255	242	243	216	NA
Barley	348	312	311	327	318	332
Oats	41	78	68	134	111	NA
Sorghum	1871	1887	1878	1898	1871	2070
Cacao	88	87	88	88	41	NA
Chickpea	138	148	148	137	134	NA
Coffee	483	523	533	581	487	NA
Garlic	8	8	5	7	8	NA
Tomatoes	73	84	38	83	72	NA
Melon	27	22	24	23	28	28
Strawberry	8	4	4	4	4	4
Honeydew	148	147	131	123	110	NA
Cucumber	11	10	10	13	17	NA
Tobacco	42	38	40	37	31	48
Total Principal crops	18838	18878	17783	18283	17308	18317

p/ Preliminary

SOURCE: Secretaría de Agricultura y Recursos Hidráulicos.

TABLE 8.2.2 HARVESTED AREA OF PRINCIPAL CROPS 1980-1985
[% distribution of main crops]

	1980	1981	1981	1983	1984	1985
Beans	11.8	12.8	13.8	12.2	11.8	13.9
Maize	45.8	46.8	47.1	48.8	49.0	52.0
Rice	0.8	1.0	1.2	0.9	0.8	1.3
Sugarcane	3.6	3.3	3.0	2.8	3.0	
Wheat	4.7	5.0	5.7	5.0	6.2	7.2
Chile (dry)	0.1	0.1	0.1	0.1	0.2	NA
Chile (green)	0.4	0.2	0.3	0.3	0.2	NA
Onion	0.1	0.1	0.1	0.1	0.2	NA
Potato	0.5	0.4	0.4	0.4	0.4	NA
Copra	0.8	0.7	0.8	0.8	1.0	NA
Cottonseed	2.1	1.9	1.1	1.3	1.8	NA
Peanut	0.4	0.4	0.3	0.5	0.5	NA
Safflower	2.6	2.5	1.3	2.5	1.5	2.5
Sesame	1.8	0.8	0.7	1.0	0.9	1.2
Soybeans	1.0	2.0	2.3	2.1	2.5	3.2
Apples	0.3	0.3	0.3	0.3	0.3	0.3
Avocado	0.3	0.3	0.3	0.3	0.3	0.3
Bananas	0.4	0.4	0.4	0.4	0.4	0.3
Grapes	0.3	0.3	0.3	0.3	0.4	0.4
Lemons	0.3	0.3	0.4	0.4	0.4	0.4
Mango	0.4	0.4	0.4	0.4	0.4	0.5
Orange	1.0	0.9	0.9	1.0	0.8	1.1
Peaches	0.1	0.1	0.2	0.1	0.2	0.2
Alfalfa (green)	1.5	1.4	1.4	1.3	1.2	NA
Berlay	2.1	1.7	1.7	1.8	1.9	2.0
Oats	0.2	0.4	0.4	0.7	0.6	NA
Sorghum	10.1	10.0	9.4	10.4	10.8	12.7
Cacao	0.4	0.4	0.4	0.3	0.2	NA
Chickpea	0.8	0.8	0.8	0.8	0.8	NA
Coffee	3.0	2.8	3.0	3.2	2.9	NA
Garlic	0.0	0.0	0.0	0.0	0.0	NA
Tomatoes	0.4	0.3	0.2	0.3	0.4	NA
Melon	0.2	0.1	0.1	0.1	0.1	0.2
Strawberry	0.0	0.0	0.0	0.0	0.0	0.0
Henequen	0.9	0.8	0.7	0.7	0.6	NA
	0.0	0.0	0.0	0.0	0.0	0.0
Cucumber	0.1	0.1	0.1	0.1	0.1	NA
Tobacco	0.3	0.2	0.2	0.2	0.2	0.3
Total Principal crops	100.0	100.0	100.0	100.0	100.0	100.0

p/ Preliminary

SOURCE: Secretaría de Agricultura y Recursos Hidráulicos.

TABLE 9.3.1 ESTIMATED YIELDS OF PRINCIPAL CROPS 1980-1988
[Ton/Ha]

	1980	1981	1982	1983	1984	1985
Beans	0.48	0.58	0.38	0.58	0.48	0.48
Mtizo	1.83	1.87	1.20	1.53	1.82	1.83
Rice	1.81	2.23	1.83	2.48	3.32	3.57
Sugarcane	88.70	84.20	84.80	87.80	88.10	NA
Wheat	3.88	3.40	4.41	3.81	4.17	4.44
Chile (dry)	1.33	1.21	1.20	1.21	0.74	NA
Chile (green)	14.88	12.47	11.28	12.88	12.28	NA
Onion	16.08	20.38	15.00	16.18	19.38	NA
Potato	12.81	11.78	19.43	10.88	19.88	NA
Coffee	1.28	1.28	1.34	1.18	1.21	NA
Castanized	3.08	2.78	2.87	2.78	1.43	NA
Peas	1.18	1.18	0.88	1.80	1.10	NA
Garbanzo	1.10	0.72	0.87	0.81	0.74	0.87
Beans	0.47	0.48	0.24	0.48	0.43	0.48
Soybeans	2.01	1.88	1.57	1.78	1.80	1.78
Apples	5.88	7.13	6.71	6.38	3.50	6.43
Avocado	8.54	8.23	8.27	7.78	7.71	8.80
Bananas	19.70	21.40	20.42	22.48	23.81	26.87
Grapes	8.88	8.58	10.48	10.77	10.18	9.71
Lemons	10.04	10.21	11.88	8.21	9.28	10.18
Oranges	9.27	12.08	10.31	9.33	10.00	9.38
Peaches	18.78	18.80	12.08	11.24	12.07	10.34
Pears	7.88	7.38	8.88	4.83	8.08	8.43
Alfalfa (green)	71.78	88.80	88.18	88.81	83.80	NA
Barley	1.88	1.77	1.27	1.70	1.88	1.82
Oats	1.88	1.21	1.27	1.70	1.88	1.82
Sorghum	2.81	2.88	2.81	2.58	2.88	3.18
Cassia	0.48	0.42	0.88	0.51	0.88	NA
Chickpeas	0.78	0.81	0.48	0.78	0.88	NA
Coffee	0.48	0.88	0.88	0.84	0.28	NA
Garlic	9.40	7.33	9.00	7.43	7.88	NA
Tomatoes	18.10	20.47	18.84	23.37	21.88	NA
Wheat	11.88	14.84	12.21	13.70	12.88	11.78
Strawberry	13.00	13.80	13.80	17.78	16.00	16.28
Mangoes	0.81	0.88	0.88	0.24	0.37	NA
Custard	17.81	18.30	18.80	14.77	14.47	NA
Tobacco	2.24	1.81	1.88	1.43	1.38	1.83

P/ Preliminary

SOURCE: Secretaría de Agricultura y Recursos Hidráulicos.

TABLE 8.3.2 ESTIMATED YIELDS OF PRINCIPAL CROPS 1980-1988
(Index 1980=100)

	1980	1981	1982	1983	1984	1988
Bacon	100.00	114.88	79.17	180.88	89.88	87.88
Wheat	100.00	108.48	79.88	89.87	89.38	100.00
Rice	100.00	118.78	130.87	179.88	179.88	188.81
Sugarcane	100.00	80.78	108.84	119.07	119.78	NA
Wheat	100.00	84.87	129.18	108.48	118.48	184.08
Chile (dry)	100.00	80.88	80.88	80.88	88.84	NA
Chile (green)	100.00	104.81	84.71	107.88	108.08	NA
Onion	100.00	128.88	89.88	108.88	88.88	NA
Potato	100.00	81.38	104.08	84.88	117.88	NA
Corn	100.00	108.88	108.88	84.44	88.08	NA
Cassava	100.00	81.18	87.88	81.18	48.78	NA
Peanut	100.00	88.81	78.88	101.88	88.88	NA
Soybean	100.00	88.48	88.18	88.48	87.87	78.08
Soybean	100.00	88.88	81.08	108.18	81.48	88.88
Soybean	100.00	84.08	78.11	87.88	78.88	87.88
Apple	100.00	128.81	118.88	108.78	80.14	110.88
Avocado	100.00	88.87	88.84	80.87	80.88	100.78
Banana	100.00	108.88	108.88	114.11	121.87	188.88
Grape	100.00	88.07	108.78	111.81	108.88	108.88
Lemon	100.00	101.88	118.18	81.78	88.18	101.18
Mango	100.00	128.88	108.41	88.08	108.88	88.78
Orange	100.00	161.88	118.88	104.88	118.17	88.18
Peach	100.00	88.87	88.88	88.88	77.88	81.88
Alfalfa (green)	100.00	87.84	88.88	88.88	118.47	NA
Barley	100.00	118.48	88.88	111.84	128.88	108.88
Oats	100.00	77.88	81.41	108.87	128.08	108.88
Sorghum	100.00	118.01	100.00	81.18	88.87	118.48
Cassia	100.00	87.88	138.48	108.88	141.87	NA
Chickpea	100.00	78.81	88.88	101.88	108.18	NA
Coffee	100.00	111.11	131.11	180.00	88.88	NA
Garlic	100.00	77.88	88.74	78.04	88.88	NA
Tomato	100.00	113.08	81.88	128.18	180.88	NA
Melon	100.00	128.84	108.04	118.81	108.88	88.48
Strawberry	100.00	108.88	108.88	138.84	128.08	188.00
Honeydew	100.00	108.88	81.88	88.84	80.88	NA
Cucumber	100.00	107.78	88.78	88.47	80.78	NA
Tomato	100.00	71.88	88.78	88.47	80.78	78.77

P/ Preliminary

SOURCE: Secretaría de Agricultura y Recursos Hidráulicos.

TABLE 8.4.1 APPARENT CONSUMPTION OF BASIC FOOD CROPS 1980-1985
(In thousands of metric tons)

	1980	1981	1982	1983	1984	1985
Maize a/						
Initial stocks	974	770	1933	1749	1267	1925
Production	8897	12536	13714	10967	13139	13052
Imports	3777	2844	6240	4036	2481	1623
Exports	0	1	0	0	4	5
Final Stocks	770	1933	1749	1281	1925	985
Consumption	12778	14216	14622	13401	14672	15710
Beans a/						
Initial stocks	227	388	329	885	573	401
Production	972	975	1404	855	1188	847
Imports	443	480	284	48	78	156
Exports	2	2	11	28	159	10
Final Stocks	388	329	885	573	401	91
Consumption	1252	1522	1091	1200	1686	1303
Rice a/						
Initial stocks	51	63	120	127	56	102
Production	458	462	673	478	425	484
Imports	0	0	0	0	0	0
Exports	0	0	0	0	0	0
Final Stocks	63	120	127	56	102	67
Consumption	456	405	668	549	379	488
Wheat b/						
Initial stocks	713	780	880	2241	1187	1374
Production	2788	3193	3773	2938	4505	5183
Imports	823	1022	435	64	510	345
Exports	0	0	0	0	0	0
Final Stocks	780	880	2241	1187	1374	1016
Consumption	3541	4141	2827	4054	4828	5886

a/ Cycle october-september

b/ Cycle may-april

SOURCES: Bank of Mexico, CONASUPO and Secretaria de Agricultura y Recursos Hidraulicos.

TABLE 8.4.2 APPARENT CONSUMPTION OF BASIC FOOD CROPS 1980-1985
(Index 1980=100)

	1980	1981	1982	1983	1984	1985
Maize a/						
Initial stocks	100.0	83.1	221.2	200.1	146.6	146.6
Production	100.0	140.9	154.1	123.5	147.7	147.7
Imports	100.0	75.3	185.2	108.9	65.7	65.7
Exports	0.0	0.0	0.0	0.0	0.0	0.0
Final Stocks	100.0	251.0	227.1	188.4	250.0	250.0
Consumption	100.0	111.3	113.6	120.5	117.2	117.2
Beans a/						
Initial stocks	100.0	170.9	144.9	394.3	252.4	252.4
Production	100.0	100.3	144.4	88.0	120.0	120.0
Imports	100.0	110.6	59.8	11.1	17.2	17.2
Exports	100.0	100.0	580.0	1300.0	7950.0	7950.0
Final Stocks	100.0	64.8	230.7	147.7	103.4	103.4
Consumption	100.0	121.6	87.1	96.8	132.3	132.3
Rice a/						
Initial stocks	100.0	123.5	235.3	249.0	109.9	109.9
Production	100.0	98.7	143.8	102.1	90.8	90.8
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Exports	0.0	0.0	0.0	0.0	0.0	0.0
Final Stocks	100.0	190.5	201.6	88.9	161.9	161.9
Consumption	100.0	88.8	148.1	120.4	83.1	83.1
Wheat b/						
Initial stocks	100.0	109.4	120.8	314.3	166.5	166.5
Production	100.0	114.8	135.5	105.4	161.8	161.8
Imports	100.0	124.2	52.9	7.9	62.0	62.0
Exports	0.0	0.0	0.0	0.0	0.0	0.0
Final Stocks	100.0	110.3	287.3	152.2	176.2	176.2
Consumption	100.0	116.8	79.8	114.5	136.3	136.3

a/ Cycle october-september

b/ Cycle may-april

SOURCES: Bank of Mexico, CONASUPO and Secretaría de Agricultura y Recursos Hidraulicos.

TABLE 9.8 PRINCIPAL AGRICULTURAL EXPORTS: VALUE AND VOLUME 1980-1985

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
	-----Value in million pesos; Volume in thousand tons-----					
Cotton						
Value	380.8	308.8	184.0	118.8	208.1	82.7
Volume	171.8	182.8	128.1	88.8	123.3	77.0
Coffee						
Value	418.8	333.8	348.1	388.7	424.4	481.1
Volume	124.8	118.0	118.0	178.8	180.0	177.0
Tobacco (leaf)						
Value	48.8	48.1	48.7	28.8	27.2	28.8
Volume	24.2	20.8	18.7	11.8	13.3	8.0
Tomatoes						
Value	188.4	288.0	188.8	112.3	220.7	138.2
Volume	373.1	282.8	338.2	207.1	481.3	NA
Other fresh vegetables						
Value	172.4	188.8	178.4	148.8	178.3	148.8
Volume	488.8	408.3	498.8	388.0	888.4	NA
Melons and watermelons						
Value	82.1	83.4	48.0	24.2	47.1	NA
Volume	188.8	148.8	208.8	88.2	248.4	NA
Other fresh fruits						
Value	21.1	18.8	27.8	21.4	40.0	88.7
Volume	142.8	118.4	118.1	142.3	148.1	NA
Chickpeas						
Value	81.0	88.8	24.7	38.8	24.8	28.0
Volume	84.1	84.8	34.1	78.8	48.2	44.8
Beans a/						
Value	88.8	48.1	38.7	28.4	48.7	NA
Volume	82.3	48.1	28.3	24.8	82.4	NA
Value above	1388.8	1323.0	1048.4	880.1	1220.1	NA
Total Agriculture Exports	1484.1	1877.8	1088.8	888.8	1388.4	NA
Total Merchandise Exports	18122.0	18488.0	21008.0	22312.0	24188.0	21888.0

a/ With and without shell

SOURCE: Bank of Mexico, "Indicadores de Comercio Exterior" and "Informe Anual".

TABLE 8.6 IMPORTS OF SELECTED AGRICULTURAL PRODUCTS 1980-1985

	1980	1981	1982	1983	1984	1985
	Value in million of pesos			Volume in thousand tons		
Maize						
Value	888.0	452.9	37.8	634.4	375.0	255.0
Volume	3777.3	3085.4	233.0	4680.9	2487.8	1728.0
Beans						
Value	241.1	338.7	98.3	1.0	33.5	58.0
Volume	443.0	480.0	147.0	1.4	119.0	145.0
Wheat						
Value	183.2	214.5	87.0	59.7	41.4	31.0
Volume	823.8	1027.9	398.5	422.8	345.0	319.0
Sorghum						
Value	308.2	431.8	184.7	453.9	383.3	284.0
Volume	2258.0	2798.8	1477.9	3308.2	2748.5	2254.0
Soybeans						
Value	132.4	355.0	155.8	217.8	403.4	NA
Volume	521.8	1110.2	517.5	884.8	1313.4	NA
Oil Seeds						
Value	125.5	148.8	217.8	138.7	239.9	NA
Volume	332.4	353.0	608.5	422.8	587.5	NA
Value Above	1559.4	1839.7	791.2	1485.5	1458.5	NA
Total Agricultural Imports	1871.5	2204.1	927.1	1819.0	1895.8	NA
Total Merchandise Imports	18832.0	23930.0	14422.0	9551.0	11254.0	13461.0

SOURCE: Bank of Mexico, "Indicadores de Comercio Exterior" and "Informe Anual".

TABLE 8.7.1 SUPPORT PRICES OF MAIN CROPS 1980-1985
(Max \$ per metric tons)

	1980	1981	1982	1983	1984	1985
Maize	4288	6267	8300	14867	26183	43438
Soybeans	8288	8400	12300	26675	38750	64000
Rice	6424	7828	11111	23383	36780	58128
Wheat	3458	4338	6521	13108	23875	34575
Sorghum	3058	3585	4670	8817	18400	28100
Beans	10500	14400	18550	27575	40382	61057

SOURCE: Bank of Mexico.

**TABLE 8.7.2 REAL SUPPORT PRICES OF MAIN CROPS 1980-1985 a/
(Max \$ per metric tons)**

	1980	1981	1982	1983	1984	1985
Maize	844.1	989.5	892.8	749.3	807.8	898.6
Soybeans	1237.8	1299.5	1160.5	1333.8	1198.4	1279.8
Rice	1264.8	1211.0	1098.4	1169.0	1135.8	1182.2
Wheat	660.7	671.1	626.9	655.2	737.1	691.3
Sorghum	601.8	551.5	448.2	440.8	588.1	561.8
Beans	2088.8	2227.7	1780.4	1378.8	1247.1	1221.0

a/ Deflated by the GDP implicit index.

SOURCE: Bank of Mexico.

TABLE 8.8.1 CONASUPO: SALES AND SUBSIDIES 1980-1985

	1980		1981		1982		1983		1984		1985	
	Sales		Subsidy		Sales		Subsidy		Sales		Subsidy	
	Thousands of tons	Max0 Mill.	Max0 Mill.	Thousands of tons	Max0 Mill.	Max0 Mill.	Thousands of tons	Max0 Mill.	Max0 Mill.	Thousands of tons	Max0 Mill.	Max0 Mill.
Maize	4,346.1	11,380.4	7,833.9	4,068.8	14,718.8	8,834.0	4,799.4	28,403.7	15,878.8			
Beans	382.3	3,834.0	1,138.7	381.2	4,248.8	2,881.8	848.8	8,888.7	2,033.3			
Wheat	108.8	348.8	333.8	82.4	222.8	887.1	3,333.8	20,188.8	8,707.8			
Sorghum	1,848.2	4,128.8	2,888.8	2,788.8	8,818.8	8,884.8	4,381.4	21,881.8	8,878.8			
Rice	88.1	818.8	27.8	188.4	1,488.4	(188.8)	188.8	2,188.8	238.8			
Barley	0.1	0.8	(0.7)	0.8	0.8	0.1	0.8	0.8	0.8			
Powered Milk	87.7	2,888.8	(88.8)	121.8	3,288.7	188.8	122.8	4,818.8	188.8			
Oil Seeds	30.3	822.7	82.8	722.8	8,888.1	788.8	848.8	8,878.8	3,488.8			
Oil	30.3	821.8	24.8	18.4	488.8	(113.8)	2.8	187.8	372.8			
Protein Meal	247.8	1,888.8	78.8	228.8	1,888.8	818.7	388.1	4,728.2	131.1			
Total	8,787.4	28,148.4	11,723.4	8,488.4	42,888.4	20,888.8	14,322.2	88,888.2	38,188.7			
	1980		1984		1985							
	Sales		Subsidy		Sales		Subsidy		Sales		Subsidy	
	Thousands of tons	Max0 Mill.	Max0 Mill.	Thousands of tons	Max0 Mill.	Max0 Mill.	Thousands of tons	Max0 Mill.	Max0 Mill.	Thousands of tons	Max0 Mill.	Max0 Mill.
Maize	4,887.7	47,873.8	80,818.7	4,887.7	88,887.8	78,388.8	4,237.8	127,018.3	70,184.0			
Beans	837.3	14,237.8	1,813.8	878.4	22,388.8	784.8	488.8	33,078.8	N.S.			
Wheat	2,828.2	28,487.8	N.S.	1,818.7	40,388.8	N.S.	777.8	24,221.3	13,188.2			
Sorghum	4,012.7	28,718.4	44,887.7	4,487.2	88,877.8	38,884.8	2,888.7	87,883.8	28,874.8			
Rice	148.2	3,888.8	N.S.	148.8	8,122.8	N.S.	238.8	22,038.8	N.S.			
Barley	844.8	3,788.8	848.4	234.8	8,871.8	1,884.2	234.8	10,838.3	1,481.8			
Powered Milk	122.2	3,287.8	1,488.8	127.8	18,788.7	488.3	148.8	28,484.8	N.S.			
Oil Seeds	388.3	8,822.3	18,488.3	881.8	8,822.3	88,788.8	228.8	18,188.8	1,818.8			
Oil	88.8	4,771.8	727.8	11.4	1,888.3	2,840.4	18.7	2,888.8	N.S.			
Protein Meal	388.8	7,428.8	3,487.1	481.8	18,778.8	2,888.8	188.1	8,278.2	N.S.			
Total	18,814.3	181,738.8	117,188.8	18,838.2	278,217.8	182,873.2	8,881.7	387,843.2	118,428.8			

a/ This information cover only the January-November 1985 period.

SOURCE: National Institute of Statistics, Geography and Information, "Boletín Mensual de Información Económica".

TABLE 9.1 PRODUCTION OF PETROLEUM AND GAS 1976-1985

	Total Reserves (Mill bbl)	Production of Crude Oil (Mill bbl)	Production of Crude Oil (Mill bbl/day)	Production of Natural Gas (Mill ft³)
1976	40,184	485.3	1.328	2542.7
1979	45,803	541.7	1.484	2851.0
1980	50,128	709.6	1.941	3548.0
1981	72,009	843.9	2.312	4090.9
1982	72,008	1,002.4	2.748	4248.3
1983	72,600	872.9	2.388	4053.6
1984	71,750	982.5	2.685	3752.6
1985 p/	70,800	880.1	2.430	3809.7

p/ preliminary

SOURCE: PEMEX, "Memoria de Labores 1985".

TABLE 9.2.1 EXPORTS: CRUDE OIL AND NATURAL GAS 1978-1985

Year	CRUDE OIL		NATURAL GAS		OTHER OIL EXP		TOTAL EXPORTS	
	Volume Mill of bbl	Value Mill of US\$	Volume Mill bbl/day	Value Mill of US\$	Volume Mill ft ³ /day	Value Mill of US\$	Volume Mill of US\$	Value Mill of US\$
1978	133.2	1,780.3	4.9	NA	NA	76.9	1837.2	
1979	194.6	3,611.3	10.4	NA	NA	175.3	3686.6	
1980	302.1	9,449.3	25.9	280.9	447.8	539.5	10,430.9	
1981	400.9	13,305.2	36.5	288.2	526.2	742.6	14,574.0	
1982	544.8	15,822.7	42.8	273.1	475.5	355.9	16,454.1	
1983	561.0	14,821.3	40.8	217.1	353.9	842.0	16,017.2	
1984	566.5	14,867.6	41.0	148.0	231.5	1,138.5	16,337.6	
1985 p/	524.9	13,266.2	38.4	NA	NA	1,233.3	14,529.5	

p/ Preliminary

SOURCE: PEREX, "Memoria de Labores 1985".

TABLE 9.2.2 BASIC PETROCHEMICALS 1978-1985

Year	Production	Sales	Exports	
	Th. met. ton	Mill pesos	Tons.	Mill. US\$
1978	5,788.1	11,501.0	700,773	87.5
1979	6,344.6	13,077.8	750,002	107.7
1980	7,224.0	17,481.1	755,200	125.3
1981	8,180.0	21,234.2	812,457	153.8
1982	10,589.0	34,944.8	872,920	140.4
1983	11,264.5	31,176.8	805,899	123.8
1984	11,220.8	172,189.8	578,145	188.5
1985 p/	12,401.7	284,880.3	339,528	78.2

p/ preliminary

SOURCE: PEMEX, "Memoria de Labores 1985".

TABLE 9.9.1 INDEX OF INDUSTRIAL PRODUCTION 1977-1988
(1970=100, period averages)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1988
										Jan	Feb
General Index of Industrial Activity	152.0	166.5	187.4	205.7	223.8	219.5	199.7	209.2	219.5	205.2	212.8
Mining a/	152.7	174.5	200.1	244.9	282.3	308.3	289.9	304.5	305.8	291.8	280.0
Manufacturing b/	151.8	165.9	184.4	199.9	213.5	208.5	190.8	200.2	212.0	205.2	212.8
Consumer Goods	145.9	157.2	172.8	184.5	187.0	183.9	180.8	185.5	184.4	182.4	183.8
Durables	158.9	177.9	200.8	219.9	239.5	211.9	189.9	174.1	185.5	180.7	179.3
Non-Durables	149.7	159.0	167.1	177.9	189.9	180.1	183.2	187.8	184.2	184.8	187.7
Intermediate Goods	155.2	171.9	189.8	205.9	220.0	213.5	199.9	213.3	225.5	217.1	228.2
Capital Formation	183.4	183.8	221.3	248.5	377.7	237.9	177.8	183.7	221.7	183.3	219.8
Construction	143.8	163.1	184.7	209.2	232.1	220.3	175.4	182.1	187.8	178.4	187.2
Electricity	198.9	214.5	235.3	251.7	272.4	268.3	282.9	309.2	330.7	320.5	325.7
Petroleum a/	179.8	211.5	250.4	310.5	382.3	385.0	401.9	413.9	411.5	388.9	354.1

a/ Includes extraction of crude oil and natural gas

b/ Includes the refining of crude oil and derivatives and basic petrochemicals

c/ Includes a subgroup for mining (STIC 0801 for the extraction of crude oil and natural gas) and two subgroups of manufacturing (STIC 3301 and 3401 for refining and basic petrochemicals).

SOURCE: Bank of Mexico, "Indicadores Economicos".

TABLE 9.3.2 INDEX OF INDUSTRIAL PRODUCTION 1977-1988
(Rates of growth)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1988	1988
										Jan	Feb
General Index of Industrial Activity	3.1	10.0	11.2	9.0	8.0	-2.0	-9.0	4.8	4.8	-6.5	3.7
Mining a/	7.0	14.9	14.7	22.3	15.3	9.2	-2.7	1.5	0.4	-4.5	-10.8
Manufacturing b/	2.8	10.1	10.5	7.8	7.4	-3.3	-9.0	5.4	5.8	-3.2	3.0
Consumer Goods	3.8	7.7	9.9	6.0	6.8	-1.8	-8.8	2.6	4.8	-1.0	0.0
Durables	0.4	13.9	12.9	8.9	9.8	-11.6	-20.2	3.1	12.3	-7.9	-4.1
Non-Durables	4.8	9.5	9.2	8.3	8.0	1.0	-3.6	2.5	3.4	0.3	1.5
Intermediate Goods	2.3	10.8	10.4	8.2	7.2	-3.0	-6.8	7.2	5.7	-3.7	5.1
Capital Formation	0.5	18.6	14.2	11.4	53.2	-37.0	-25.3	8.8	14.5	-12.8	13.3
Construction	-3.0	13.8	13.2	12.7	11.5	-5.1	-20.4	3.8	3.1	-6.1	-5.2
Electricity	10.0	8.9	9.7	7.0	8.2	5.8	1.8	5.8	7.0	-3.1	1.8
Petroleum c/	10.1	17.8	18.4	24.0	16.7	9.0	1.7	3.0	-0.6	-5.5	-8.9

a/ Includes extraction of crude oil and natural gas

b/ Includes the refining of crude oil and derivatives and basic petrochemicals

c/ Includes a subgroup for mining (STIC 0801 for the extraction of crude oil and natural gas) and two subgroups of manufacturing (STIC 3301 and 3401 for refining and basic petrochemicals).

SOURCE: Bank of Mexico, "Indicadores Economicos".

TABLE 9.4.1 INDEX OF MANUFACTURING PRODUCTION 1977-1988
(1970=100, period averages)

	<u>1977</u>	<u>1978</u>	<u>1978</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984 p/</u>	<u>1985 p/</u>	<u>1988 p/</u>	<u>1988 p/</u>
										Jan	Feb
<u>General Index</u>	151.8	168.8	184.4	188.8	219.5	206.5	190.0	202.2	212.1	205.2	212.8
Food, Beverages and Tobacco	137.3	145.7	158.3	168.6	175.1	182.3	181.7	184.6	180.1	212.4	207.4
Textiles and Clothing	140.6	148.0	163.9	168.6	179.9	189.8	156.8	180.0	189.8	153.5	158.2
Wood Products	142.7	153.0	169.7	180.0	187.0	183.6	168.3	183.0	208.8	179.3	168.2
Paper and Printing	147.3	157.8	173.4	182.2	189.2	203.7	182.5	208.0	227.1	218.8	217.3
Chemical, Rubber and Plastic	165.5	201.1	221.1	242.7	262.3	267.5	268.6	283.0	283.4	289.0	285.4
Minerals Non-Metallics	140.8	161.3	178.5	193.4	208.8	184.7	158.2	182.4	178.1	158.8	164.7
Basic Metals	151.1	180.9	185.4	202.1	209.2	190.8	177.3	209.0	188.1	188.8	183.8
Metal Products and Machinery	159.3	188.0	217.4	242.8	270.8	232.8	175.0	187.8	218.1	187.3	228.3

p/ Preliminary figures.

SOURCE: Bank of Mexico, "Indicadores Economicos".

TABLE 9.4.2 INDEX OF MANUFACTURING PRODUCTION 1979-1989
(Rates of Growth)

	1978	1979	1980	1981	1982	1983	1984	1985 p/	1986 p/ Jan	1986 p/ Feb
<u>General Index</u>	10.1	10.6	7.8	7.4	-2.3	-8.0	6.4	4.9	-3.2	3.9
Food, Beverages and Tobacco	6.1	7.3	6.6	6.1	4.1	-0.3	1.6	3.0	11.7	-2.4
Textiles and Clothing	6.3	10.7	2.9	6.7	-6.7	-7.5	2.0	6.0	-9.6	3.1
Wood Products	7.2	10.9	6.1	3.9	3.5	-3.9	3.6	8.2	-14.1	-6.2
Paper and Printing	7.1	9.8	10.8	3.6	2.3	-5.5	7.0	10.2	-3.3	-1.0
Chemical, Rubber and Plastic	8.4	9.9	9.8	9.1	2.0	-0.3	6.2	3.7	-9.3	6.1
Minerals Non-Metallic	14.6	10.7	8.3	9.0	-8.8	-18.7	15.3	-2.3	-10.3	3.1
Basic Metals	18.7	8.0	3.4	3.5	-8.8	-7.1	17.9	-5.2	0.2	-2.4
Metal Products and Machinery	18.0	15.6	11.7	11.4	-13.9	-24.9	7.3	16.7	-10.0	16.2

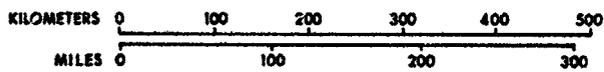
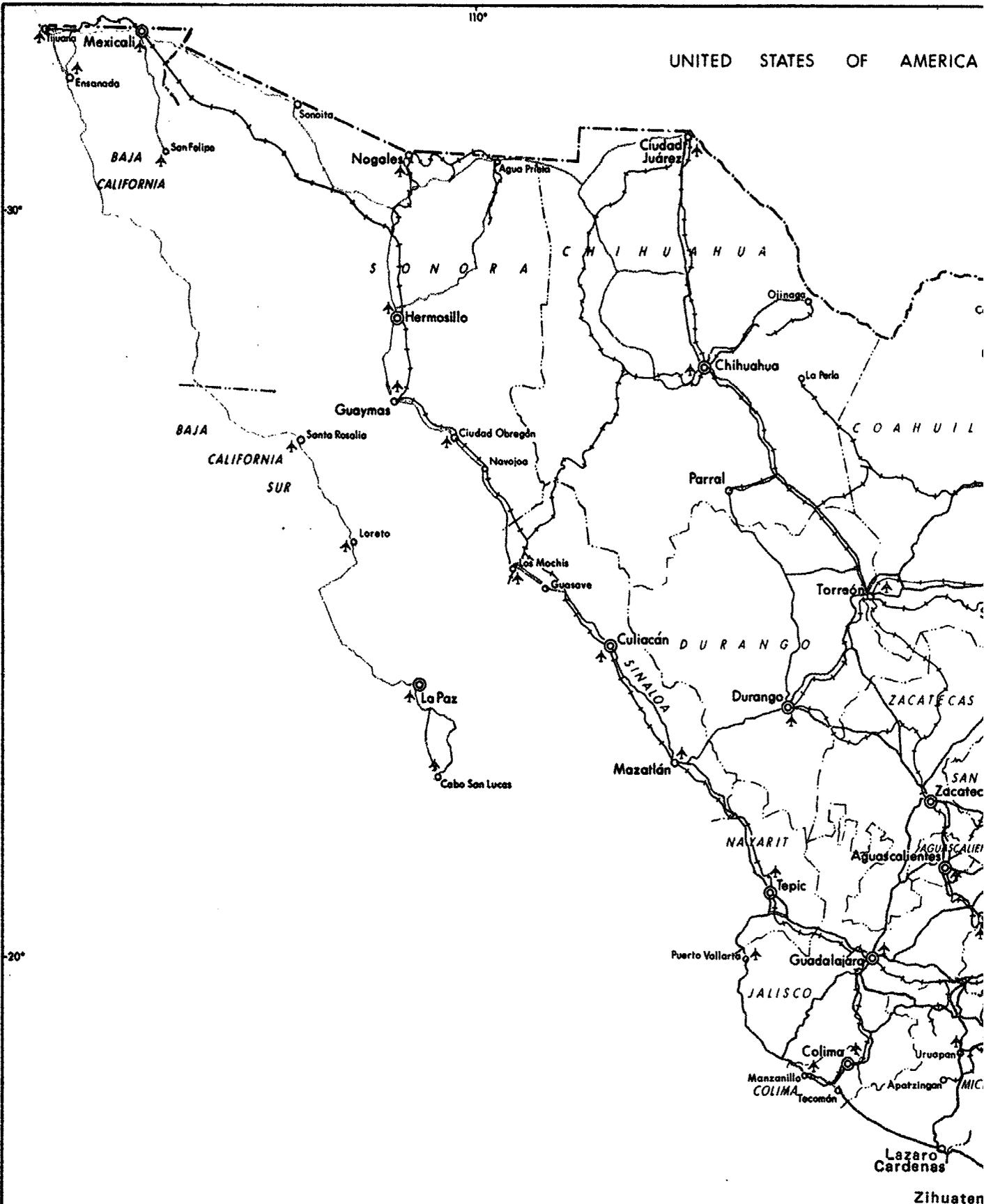
p/ Preliminary figures.

SOURCE: Bank of Mexico, "Indicadores Economicos".

NOTES

NOTES

MAP SECTION



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MEXICO

-  National capital
-  State capitals (Maintenance district headquarters)
-  Principal cities or towns
-  Divided highways
-  Selected main roads
-  Railroads
-  Rivers
-  Principal airports
-  State boundaries
-  International boundaries

