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Mexico
Mobilizing Savings for Growth

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CURRENCY EQUIVALENTS

Currency Unit	=	Mexico New Peso (MexNP)
US$1 00	=	MexNP8 072 (December 18, 1997)

GOVERNMENT FISCAL YEAR

January 1- December 31•

ABBREVIATIONS AND ACRONYMS

ABS	Asset Backed Securities
ADE	Debtor Relief Program (Acuerdo de Apoyo Inmediato a los Deudores de la Banca)
AFORES	Retirement Fund Administrator (Administradores de Fondos de Ahorro para el Retiro)
ASCRA	Accumulating Savings and Credit Association
CANAFO	Mexican Development Savings Bank (Caja Mexicana de Fomento)
CD	Certificate of Deposit
CEA	Special Savings Account (Cuentas Especiales de Ahorro)
CETES	Mexican Treasury Bills
CMCP	Confederation of Mexican Cajas Populares
CNBV	National Banking and Securities Commission (Comision Nacional Bancaria y de Valores)
CONSAR	National Commission of the Retirement Savings System (Comision Nacional del Sistema de Ahorro para el Retiro)
CPM	Caja Popular Mexicana
EU	European Union
FOBAPROA	Bank Fund for Savings Protection (Fondo Bancario de Proteccion al Ahorro)
FOVI	Bank Housing Finance Fund (Fondo de Operación y Financiamiento Bancario a la Vivienda)
FOVISSSTE	Government Workers' Housing Fund (Fondo para la Vivienda de los Trabajadores del ISSSTE)
GAPP	Generally Accepted Accounting Principles
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GDS	Gross Domestic Saving
GNI	Gross National Income
GNP	Gross National Product
GNS	Gross National Saving
ICVM	Disability, Old Age, Severance and Death Benefits (Invalidez, Cesantia, Vejez, Muerte)
IMSS	Mexican Social Security Institute (Instituto Mexicano del Seguro Social)
INEGI	The National Institute for Statistics, Geography and Information (Instituto Nacional de Estadística, Georgrafia e Informatica)
INFONAVIT	National Workers' Housing Fund Institute (Instituto del Fondo Nacional de la Vivienda de los Trabajadores)
ISSSTE	Social Security Institute for Government Workers
MBS	Mortgage Backed Security
MPG	Minimum Pension Guarantees
MPK	Marginal Product of Capital Net of Depreciation
MSE	Mexican Stock Exchange
NAFIN	National Finance Bank (Nacional Financiera)
NAFTA	North American Free Trade Agreement
NFI	Net Foreign Income and Transfers
OECD	Organization for Economic Cooperation and Development
PANHAL	National Savings Trust (Patronato del Ahorro Nacional)
PAYG	Pay-As-You-Go
PDC	Private Domestic Credit
PRONASOL	National Solidarity Program (Programa Nacional de Solidaridad)
PSL	Pension System Law
R&D	Research and Development
ROSCAS	Rotating Savings and Credit Associations
RPTR	Relative Price of Tradable Goods
SAP	Savings and Loan Association (Sociedad de Ahorro y Prestamo)
SAR	Retirement Savings System (Sistema de Ahorro para el Retiro)
SEC	Security Exchange Commission
SEDESOL	Secretariat for Social Development (Secretaria de Desarrollo Social)
SHCP	Ministry of Finance (Secretaria de Hacienda y Credito Público)
SIEFORES	Society for Specialized Investment in Retirement Funds (Sociedades de Inversión Especializadas en Fondos para el Retiro)
SNA	System of National Accounts
SOFOL	Limited Purpose Bank (Sociedad Financiera de Objeto Limitado)
SPV	Special Purpose Vehicle
TFP	Total Factor Productivity
UDI	Inflation Adjusted Units (Unidad de Inversión)
VAT	Value Added Tax
VVA	Asset Disposal Agency (Valuacion y Venta de Activos)

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MEXICO
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PREFACE

The Mexican crisis of 1994-95 dramatically brought home the importance of saving to economic stability and sustained growth. This report analyzes the causes of Mexico's relatively low saving rate, especially the decline since the mid-1980s, and develops a set of policy recommendations to improve Mexico's savings performance. The report is in two volumes: Volume I provides a summary of the report's findings and recommendations, while the detailed supporting analysis is presented in Volume II.

Raising the national saving rate is a major point of emphasis in the policy agenda of the present Mexican Government. This report is intended as an input into the efforts the Government is making toward that objective. In the preparation of the report, the Bank team received valuable cooperation from several parts of the Mexican Government, especially *Secretaria de Hacienda y Crédito Publico* and *Banco de México*, which is gratefully acknowledged.

This report was prepared by a team led by Zia Qureshi and comprising Craig Burnside, Hemant Shah, Mike Lubrano, Laura Mecagni (all Bank staff), and Ulpiano Ayala, Barry Bosworth, Roger Gordon, and Catherine Mansell-Carstens (consultants). Tony Ollero and Joost Draaisma contributed with research and statistical assistance. Mark Austin provided editorial assistance and, together with Raquel Obleas and Luis Muñoz, processed the document. Peer reviewers were Frank Lysy, Peter Montiel and Luis Serven.

As part of the preparation of the report, Bankwide seminars were held on most of the background papers included in Volume II, and the papers have benefited from comments from the seminar participants. A Bankwide review of the overall report was held in March 1997, and discussions with the Mexican Government on the draft report were held later in the year. The present version of the report incorporates comments received at those discussions.

MEXICO
MOBILIZING SAVINGS FOR GROWTH

SUMMARY REPORT

A. OVERVIEW

1. Mexico must improve its growth performance in order to achieve its development objectives of raising the level of welfare of its people and reducing its persistently high poverty. A necessary condition for achieving higher growth in a sustainable manner is for Mexico to mobilize more of its own resources in support of investment. Mexico's national saving rate is relatively low, and it declined appreciably in the latter half of the 1980s and the early 1990s (by as much as 7.5 percent of GDP). By 1994, the national saving rate had dropped to about 16 percent of GDP. The decline in national saving was an important underlying cause of the financial crisis that erupted that year.

2. This report has two objectives. First, it reviews trends in saving in Mexico and analyzes the causes of the low rate of saving, especially the decline in saving since the mid-1980s. The analysis focuses on the period up to the 1994 crisis. Second, the report develops a set of policy recommendations aimed at a stronger mobilization of national savings. These recommendations seek both to increase the saving rate and to improve the efficiency with which savings are deployed in supporting investment. The focus of the report is on private saving, which experienced most of the decline in recent years.

3. Mexico's low and recently declining saving rate is explained by an interplay of structural factors and macroeconomic developments. While factors such as weaknesses in the tax and social security systems and the lack of depth of the financial system have acted as constraints on saving for some time, macroeconomic developments of the latter half of the 1980s and early 1990s also played an important role in the decline in saving that occurred during that period—rapid growth of bank credit to the private sector, surge in portfolio capital inflows, boom in domestic asset markets, currency appreciation.

4. The report recommends that Mexico aim to increase its national saving rate to around 25 percent of GDP over the medium to long term, a level moderately above that prevailing prior to the saving rate decline. The bulk of this increase in saving will need to come from the private sector, but public saving will need to rise too. The report's recommendations on policies to increase national saving can be grouped under five heads:

- Macroeconomic policies must provide a stable financial environment conducive to a sustained rise in saving. This means adherence to fiscal, monetary and debt management policies that foster macroeconomic stability, together with an exchange rate policy supportive of competitiveness. Maintenance of a stable macroeconomic environment is a necessary condition for Mexico to benefit from the virtuous circle that links higher growth with higher saving.

- There will be need for tax reform, both to increase public saving and improve incentives for private saving. The centerpiece of the tax reform should be a major strengthening of the value-added tax (VAT), that would raise more revenue and at the same time shift the balance of taxation from income toward consumption and allow a reduction of the effective tax on the return to capital.

- The reform of the pension system for private sector workers that came into effect in 1997 is a major step forward, with a potentially significant impact on saving that would be stronger the more the

transitional fiscal costs of the reform are met through fiscal adjustment. But the present reform must be followed by further actions to: establish a sound regulatory and investment regime for the new privately managed pension funds; deepen the reform of the housing component of the pension system (INFONAVIT); and extend pension reform to public sector workers.

- The development of financial markets is important both to increasing savings and to allocating them efficiently. A priority is the rehabilitation of the banking system from the recent crisis. But equally important are the more fundamental reforms in the incentives and regulatory regime—reform of bank liability insurance, upgrading of bank accounting, capital rules, prudential regulation and supervision—which are necessary to ensure sound development of the banking system in the future. Improvements in the legal, regulatory and institutional framework are also key to the development of the capital markets more broadly, for which the establishment of private pension funds creates new opportunities for growth—securitization and bankruptcy laws, regulatory and supervisory regime governing the securities markets.

- The availability and quality of small savings instruments need to be improved to expand the access of low-income savers to better-quality savings vehicles, especially in rural areas. The spread of banks into rural areas should be encouraged, drawing on the successful experiments in other countries that demonstrate the viability of a rural bank branch network. Scope exits for making a more effective use of the small savings schemes utilizing the network of post offices (PAHNAL). Given a stronger legal foundation, and improved prudential regulation and supervision, a greater role in the mobilization of small savings can also be played by the large number of financial cooperatives, or *cajas de ahorro*, that exist in Mexico.

5. The main findings of the report are summarized below. Details of the analysis and conclusions are provided in Volume II of the report.

B. MEXICO'S SAVINGS PERFORMANCE

6. In the latter half of the 1980s and the first half of the 1990s, Mexico implemented a major program of stabilization and structural reform. Substantial progress was made in the macroeconomic sphere with the sharp reduction of the fiscal deficit and inflation, and a number of structural reforms were implemented. Mexico liberalized its trade regime, established both current and capital-account convertibility, privatized public enterprises including banks, and sharply reduced government regulation of the domestic financial system. Yet, the actual gains in economic performance were limited. The economy did rebound from the 1986 recession, but overall growth remained well below the rates achieved in the 1970s (GDP growth averaged 2.7 percent during 1987-94, less than half the growth rate over the 1970s).

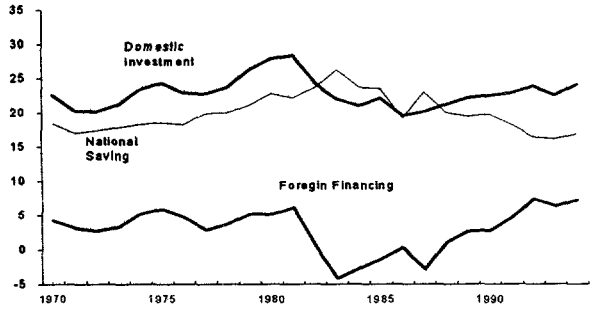
7. One particularly notable feature of the Mexican experience was the failure of the reforms to move the economy in the direction of higher rates of domestic saving and capital accumulation. Together with a productivity performance that remained relatively weak (structural reforms, though significant, did not go far enough to give productivity a major boost), the lack of dynamism in domestic capital formation kept growth low.[1] Domestic investment had by the early 1990s largely recovered from

[1] Saving/investment and productivity constitute two fundamental determinants of long-term growth. The focus of this report is on the former. For more on the latter, see *Mexico: Reform and Productivity Growth*, World Bank, 1994. A more up-to-date analysis of Mexico's productivity performance is the focus of another World Bank report currently being prepared.

the depressed rates of the mid-1980s, but it did not reach the peak share of GNP achieved in the early 1980s, and it has remained far below the rates that have become common for East Asia. Even more surprising, the rate of national saving actually fell substantially, from an average approaching 24 percent of GNP in 1980-84 to about 16 percent by 1993 (Figure 1). With the deterioration of internal saving, Mexico became increasingly dependent on net inflows of foreign resources, reflected in current account deficits of 6-8 percent of GNP in 1992-94, to finance investment. The low rate of saving and the consequent excessive dependence on foreign capital inflows was a fundamental factor underlying the financial crisis that erupted in late 1994.

National saving has declined substantially since the mid-1980s

Figure 1: National Saving and Investment Balance
(Percent of GNP)

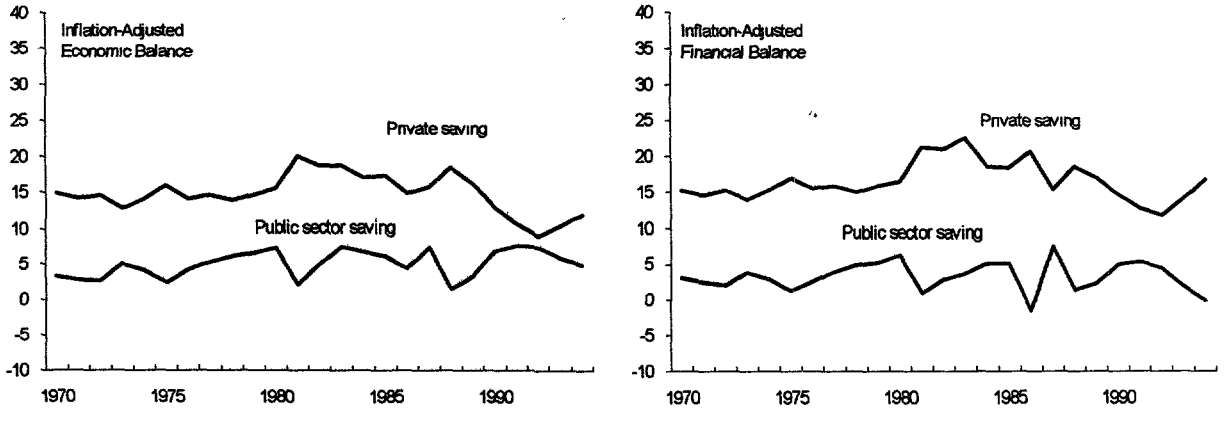


Source: Volume II, Paper 1.

8. The decline in saving started in the first half of the 1980s but became more pronounced after 1987. The national saving rate dropped by about 7.5 percent of GDP from its average level in 1980-84 to that in 1992-94. How this decline was shared between public and private saving depends upon what measure of the public budget balance is used—whether it is defined to include or exclude the financial intermediation activities of government. In inflation-adjusted terms (adjusting interest payments on public debt for inflation), the decline in the national saving rate during the above period is almost wholly explained by private saving if public saving is estimated using the economic balance (fiscal balance excluding government financial institutions). If public saving is estimated using the financial balance (fiscal balance including government financial institutions), about 2 percentage points of the 7.5 percentage point decline appears attributable to public saving (Figure 2). Either way, the major part of the decline in the national saving rate was in private saving—hence the focus of this report on private saving.

The decline in saving has been concentrated in the private sector

Figure 2: Public and Private Saving Rates
(Percent of GNP)

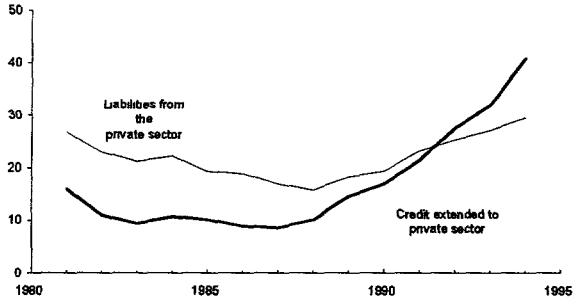


Source: Volume II, Paper 1.

9. An important question analyzed in the report is what caused this large drop in private saving. Interest focuses especially on the period after 1987, both because the decline in saving was concentrated in that period and because 1987 also marked the year when Mexico embarked upon its stabilization and reform program. While it is difficult to sort out all the changes that were then occurring in Mexico, analysis suggests that a substantial part of the fall in private saving during that period can be attributed to certain aspects of Mexico's reform program and related market developments. A key role was played by the liberalization of financial markets—privatization, elimination of restrictions on lending and reserve requirements, permission to banks to issue marketable securities, liberalization of external capital account transactions—that permitted a large expansion of credit to the private sector, and by a major boom in asset markets that generated large wealth effects. Credit extended to the private sector rose from 8.5 to 41 percent of GDP between 1987 and 1994 (Figure 3). The sharp increase in credit available to the private sector contributed to the explosion in asset values. The stock market index rose seven-fold and land prices rose five-fold between 1987-93. An estimated composite index of private sector wealth shows private wealth at market value rising from 1.5 times GDP in 1987 to 5.6 times GDP in 1993 (Figure 4). The enlarged access to credit and the surge in private wealth as a result of the massive capital gains boosted consumption.

Financial market liberalization was accompanied by rapid growth of credit to the private sector

Figure 3: Bank Liabilities and Credit Extended to the Private Sector
(Percent of GDP)



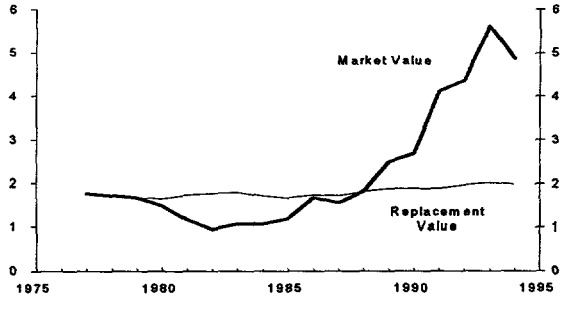
Source: Volume II, Paper 1.

10. A sharp rise in foreign capital inflows also increased credit availability and fed the surge in capital gains. It is not only the size of the capital inflow that is relevant here, but also its composition: much of the surge in inflows came in the form of portfolio capital that boosted prices in the relatively thin domestic securities market. Negligible until 1990, portfolio capital inflows rose to 8 percent of GNP by 1993, before plunging in 1994 as the financial crisis developed (Figure 5).

11. The exchange rate-based stabilization program adopted by Mexico also played a role. International experience provides evidence of such stabilization programs leading to a short-term boom in consumption (Argentina, Chile, Israel and Uruguay, for example, have experienced such episodes). In Mexico's case, the stabilization program appears to have contributed both directly and indirectly to the drop in private saving. Analysis in this report finds that saving was negatively affected by the real exchange rate appreciation. Some contributory role also appears to have been played by trade liberalization that lowered the price of imported consumer goods. Indirectly, the stabilization program appears to have boosted consumption through its effects on expectations, that raised consumers' perceived

Large wealth effects from an asset market boom contributed to the private saving decline

Figure 4: Estimates of Private Sector Wealth
(Ratio to GDP)

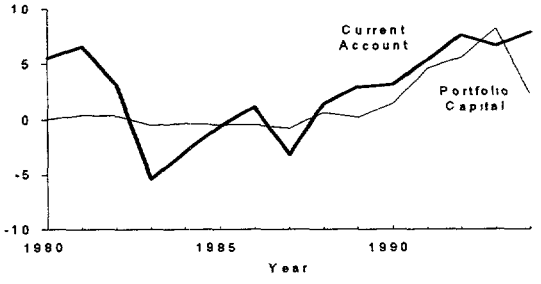


Source: Volume II, Paper 1.

permanent income and generated investor optimism (euphoria) that fed the financial and asset market developments noted above.

A surge in portfolio capital inflows, that financed an expanding external deficit, added to the domestic financial and asset market boom

Figure 5: The Current Account and Portfolio Capital Inflows
(Percent of GNP)



Source. Volume II, Paper 1.

12. What appears to stand out most prominently in the decline of private saving in Mexico is the potential danger of rapid liberalization of financial markets without supportive institutional strengthening. An open competitive financial market calls for a different type of financial regulation from that applied during the era of credit controls and allocations. Both the regulators and the market participants are likely to be rather inexperienced. The explosive growth of bank credit to the private sector hurt saving, and also contributed to a serious bank crisis when a large part of that credit growth went sour (para. 47). It would seem better to proceed with financial liberalization at a pace determined by how fast the institutional framework for prudential regulation and supervision can be strengthened. This is particularly true if domestic financial market liberalization is combined with external capital account convertibility. The inflow of foreign capital can easily overwhelm domestic markets that are still lacking in depth. Mexico could have induced a more conservative bank lending policy, e.g., by requiring higher capitalization of banks, and it could have attempted to temper portfolio capital inflows, through a macroeconomic policy mix that supported lower domestic interest rates and perhaps also through a limited use of tax and reserve account measures similar to those employed by Chile. The Mexican experience suggests that reforming economies should be wary of large price increases in asset markets, induced by the transitory effects of market liberalization and excessive optimism. The Mexican authorities viewed the price increases in equity markets as a sign of the success of the reform program, but they also contained the seeds of the subsequent collapse.

13. As noted, the decline in saving was a principal underlying cause of the financial crisis of 1994-95. It was the major force behind the expansion of the current account deficit, and the reliance on private portfolio capital proved to be as transitory and as dangerous as that on bank finance a decade earlier. In principle, the inflow of capital through a current account deficit can make a contribution to stronger and sustainable growth, if the inflow is channeled into investment that increases domestic output and generates the resources needed for the eventual servicing of the external capital. Capital inflows in the form of foreign direct investment can be especially conducive to such an outcome. In contrast, Mexico's is a case where the bulk of the capital inflow supported consumption rather than investment, and the dominant form of the inflow was portfolio capital. The combination of a high and rising domestic investment rate and a large foreign resource inflow can be viewed in a favorable light (with the proviso that the increased investment flows into productive activities), but the combination of a falling domestic saving rate and a rising resource inflow should be viewed as a threat to stability and sustained growth.

14. While the decline in public saving, estimated using the public sector financial balance, was small relative to private saving, it nevertheless contributed to the overall decline in national saving An important element of Mexico's stabilization and reform program was the reining in of the country's large fiscal deficit, and initially considerable success was achieved in that objective. However, there was a renewed deterioration of the public sector budget balance in 1992-94. This resulted partly from an increase

in spending in the run-up to the 1994 elections, especially through the government development banks. Partly it resulted also from fiscal pressures arising from slow growth in tax revenues, that tended to lag behind GDP, signaling a low elasticity of the tax system and weaknesses in tax administration (para. 32).

15. The large decline in private saving and the sharply increased reliance on foreign capital suggest that Mexico's fiscal policy, viewed in the overall macroeconomic context, was too expansionary. In the situation in which the fall in private saving could not be reversed, the need for greater national saving could have been addressed through running a larger budget surplus. In contrast, the fiscal position actually weakened, contributing to the build-up of macroeconomic pressures that culminated in the financial crisis. Also, fiscal restraint could have been complemented by some depreciation of the exchange rate.

C. WHY SAVINGS MUST INCREASE

16. Mexico needs to raise its national saving rate significantly, from the low level of about 16 percent of GDP to which it had dropped prior to the crisis of 1994 toward 25 percent of GDP over the medium to long term. This would involve not only reversing the large decline in the saving rate that took place after the mid-1980s, but also raising the saving rate to a level moderately above that prevailing prior to that decline. At 25 percent of GDP, the national saving rate in Mexico would still be appreciably lower than the rates typical of the high-saving and fast-growing East Asian economies (30-35 percent of GDP), but that is a level that seems to be absolutely necessary over the medium term for Mexico to achieve its growth and development objectives in a sustainable manner.

17. Over the medium to long term, Mexico needs to attain and sustain a GDP growth rate of about 6 percent per annum to generate gainful employment for its expanding labor force and make serious inroads into its persistently high poverty. It is estimated that this would require an increase in Mexico's gross domestic investment toward an average rate of around 27 percent of GDP, from the recent crisis-depressed rate of around 20 percent and the pre-crisis rate of about 23 percent. In the medium term, Mexico could run external current account deficits averaging around 2.5 percent of GDP. Deficits much larger than that on a continuing basis run the risk of endangering the sustainability of the economy's external financial position. Mexico's recent experience provides a clear warning against allowing the external deficit to become very large, to levels that imply an unsustainably rapid increase in external liabilities and that render the economy vulnerable to potentially volatile capital flows. The desired long-term investment rate and the need to keep reliance on foreign saving within sustainable limits imply a desired long-term national saving rate of around 25 percent of GDP, as noted above.

18. For any target growth rate, the required investment is less the faster the growth in productivity. Extending and deepening structural reforms to improve Mexico's productivity performance will be a crucial, indispensable element of the country's development agenda. The above estimate of investment requirements in the medium to long term assumes progress on this front, but recognizes that it would be gradual. It also reflects Mexico's large investment requirements in the coming years, especially in infrastructure development and in the modernization of capital that, in the past several years of a drop in aggregate investment, has suffered from inadequate investment to offset rapid depreciation and obsolescence. Also, to an important degree, productivity growth itself would depend on investments embodying new technologies and processes.

19. Both private and public saving will need to contribute to the desired increase in national saving. As the fall in saving in recent years was much larger in private saving, the increase in national saving in the period ahead will need to come mainly from a recovery in private saving. In the couple of

years preceding the 1994 financial crisis, private saving had declined to an average of about 14 percent of GDP and public saving to an average of about 2 percent of GDP (in inflation-adjusted terms and using the financial balance-based measure of public saving). A reasonable target would be for private saving to rise to about 20 percent of GDP over the medium term and public saving to about 5 percent of GDP, in both cases to levels moderately higher than those prevailing prior to the decline in saving starting in the latter half of the 1980s.

20. Increasing public saving can be a quick and effective way of raising national saving. Analysis of saving trends in Mexico presented in this report finds that changes in public saving tend to have an offsetting effect on private saving (the so-called Ricardian equivalence effect), but that this effect is partial. Evidence seems to point to an offset coefficient in the range of 0.5-0.6. Even this estimate may be biased upwards by measurement errors: since private saving is computed as a residual, any error in the measurement of public saving automatically gives rise to a negative correlation between public and private saving. Increases in public saving can therefore contribute to raising aggregate saving.

21. Consistent with the above reasoning, increasing the national saving rate is a key element of the policy agenda of the present Mexican Government, as elaborated in the National Development Plan for 1995-2000. More recently, in mid-1997 the Government announced a medium-term macroeconomic policy framework for 1997-2000 (PRONAFIDE) which reconfirmed the emphasis on the mobilization of national savings as a centerpiece of the Government's strategy for the attainment of stronger and sustainable growth. The target increase in the national saving rate envisaged in the PRONAFIDE program is broadly consistent with the orders of magnitude indicated above.

D. POLICIES FOR MOBILIZING SAVINGS

22. Part of the desired increase in national saving would be expected to result from the unwinding or correction of some of the factors causing the recent decline in saving that may be considered relatively temporary. That would include, for instance, the end of the asset market bubble, and the correction of the exchange rate appreciation. Partly reflecting these developments, national accounts data for 1995-96 show the beginning of a recovery in private saving. But much of the policy agenda for raising national saving is medium to longer term in nature, involving actions that affect the underlying "structural" determinants of saving, such as the tax system, the pension (contractual savings) system, and the depth of the financial system. Over the still longer term, saving would be influenced also by demographic and socio-economic factors—the age distribution of the population, income distribution—that have an important bearing on saving but evolve more slowly.

23. This report identifies five main elements of the policy agenda for the mobilization of savings in Mexico: maintaining macroeconomic stability; improving the tax system; extending pension system reform; developing the financial markets; and fostering small savings. These are broadly also the areas spanned by the Government's savings mobilization strategy set out in the PRONAFIDE program, and the thrust of that strategy is consistent with the policy agenda proposed in this report. Actions in these five areas would promote higher saving, but would also contribute to raising the efficiency with which savings are allocated in the economy. Some of the recommended policies, such as those for the development of financial markets, may initially affect more the allocation rather than the level of savings, but a more efficient allocation of savings through improved financial intermediation would in turn be expected to boost aggregate savings by supporting higher economic growth. Existing inefficiencies in the financial system indicate that the scope for such improvement in allocative efficiency is substantial.

24. The policy agenda summarized below under the above-mentioned five areas is fairly broad, spanning macroeconomic policy, structural reform and institution-building. Clearly, in implementing this agenda, there would be the need for appropriate priority ordering and sequencing, including taking into account the Government's room to maneuver.

(i) Maintaining Macroeconomic Stability

25. A fundamental, general condition for the attainment of high saving and investment is macroeconomic stability. An environment marked by economic volatility and uncertainty hurts saving and investment by discouraging long-term commitment of funds and distorting market signals. High inflation, that tends to be associated with negative real interest rates, acts as a disincentive to saving by taxing the accumulation of financial assets. A stable macroeconomic setting is an essential foundation for sustained growth, and hence for an economy to benefit from the positive correlation between high growth and high saving that is supported by much empirical evidence, including that developed in this report. East Asian economies have been particularly successful in exploiting this virtuous circle. For a sustained increase in saving, Mexico must break away from its vulnerability to periodic bouts of macroeconomic instability.

26. The foregoing calls for pursuing sound macroeconomic policies—fiscal, monetary, debt management, exchange rate—in a consistent and sustained manner. Mexico's increased integration into international capital markets, and the increased mobility and potential volatility of capital that comes with it, heightens the need for maintaining strict discipline in macroeconomic management, including sound financial sector management. With increased international integration, the payoffs to sound policies are larger, but so are the penalties for policy errors, as Mexico's own experience vividly demonstrates.

27 Since the crisis, Mexico has made substantial progress in restoring financial stability and creating conditions for a resumption of growth—reducing inflation, reversing the sharp rise in interest rates, boosting exports, correcting the external imbalance, reestablishing investor confidence. But much remains to be done to consolidate and build upon these gains. In the period ahead, three policy areas will be particularly important to the maintenance of macroeconomic stability: preservation of fiscal discipline in the face of important new demands on the budget; maintenance of a competitive exchange rate; and orderly resolution of the crisis in the banking system.[2] Besides fostering a stable macroeconomic environment conducive to sustained growth, actions in these areas would contribute to savings directly—higher fiscal and financial sector savings, positive effect of a competitive exchange rate on domestic savings.

28. ***Strengthen the Fiscal Position***. The fiscal policy challenge will be two-fold. First, in the years ahead Mexico faces additional fiscal expenditures of 2.5-3 percent of GDP per annum arising from the fiscal costs of the social security reform (covering both the private sector pension system and health insurance) that came into effect in 1997 and the costs associated with the various bank restructuring programs the Government has introduced in response to the banking system crisis. These major new costs arise at a time when pressures for increase in other spending will likely also be strong, given the demands for a recovery in spending from the compressed levels forced by the 1994-95 crisis in general and the large needs of infrastructure development in particular. On the revenue side, the fiscal position recently has been supported in part by revenues that are temporary in nature—oil revenue windfall, privatization proceeds—which compounds the fiscal challenge ahead. The Government needs to accommodate the important new demands on the budget while preventing a significant weakening of its overall fiscal position (from the near

[2] The last of these is taken up in a subsequent section on Developing the Financial Markets.

balance in the non-financial public sector accounts achieved in 1995-96). Second, beyond this fiscal adjustment, the Government needs to generate over the medium term an increase in public saving as part of the overall target increase in national saving discussed in the preceding section.

29. While a tight rein must be maintained on non-essential spending, tax measures to mobilize more revenue will be inevitable if these fiscal objectives are to be realized, as elaborated in the next section. The Government needs to formulate its fiscal measures within a framework that brings together the various elements of the medium-term fiscal outlook and provides an integrated assessment of the sustainability of the fiscal position and its macroeconomic consistency.

30. ***Maintain a Competitive Exchange Rate.*** The need to maintain a competitive exchange rate and keep the current account deficit within limits that avoid overexposure to external capital is a key lesson of the Mexican crisis. Fiscal adjustment, discussed above, is important also from this perspective. Sizable capital inflows are once again putting upward pressure on the exchange rate. Fiscal adjustment can be instrumental in this situation in preventing excessive real appreciation, tempering the inflows and alleviating the pressure on monetary policy. With the appreciation that occurred in 1996, the real depreciation relative to the pre-crisis level of the exchange rate that remained as of early 1997 was around 20 percent, less than half of the initial real depreciation following the crisis. Mexico needs to prevent any further erosion of competitiveness.

(ii) Improving the Tax System

31. In meeting the major new demands on the budget and achieving the desired increase in public saving, several public policy instruments can be used. First, while substantial adjustment in public expenditures has taken place as part of the Government's stabilization and reform program, there remains scope for further economies and efficiency gains, such as through better targeting of consumer subsidies, further reform of health insurance, systemic improvements in the expenditure management process, and containment of politically-oriented spending that tends to rise around elections. Second, better pricing of public services (electricity, for example) offers scope for more public resource mobilization. Third, further progress on privatization (especially in the energy sector) can reduce the burden on the budget of the large needs of infrastructure development. While improvements on these fronts should be vigorously pursued, and steps are being taken by the Government, the fiscal challenges that Mexico faces in the period ahead would still necessitate tax reform to mobilize more revenues.

32. The objective of tax reform would be the efficient mobilization of revenues to enhance public saving, not to provide resources to increase the size of government. While increasing revenues, tax reform should also seek efficient ways to improve incentives for private saving and investment. With an overall tax to GDP ratio of around 15 percent, the tax burden in Mexico is moderate relative to that in comparable countries, and shows scope for an increase. Also, in recent years, tax revenue has tended to lag behind GDP: the non-oil tax to GDP ratio declined from about 12 5 percent in the early 1990s to 10.5 percent in 1994, and fell further to 8.6 percent in 1996 following the crisis. Tax reform needs to address the low system elasticity and problems in tax administration signaled by this revenue performance.

33. ***Expand the VAT.*** The focus of the tax reform strategy should be the VAT. Strengthening the VAT would both bring in more public revenue as well as improve incentives for saving and investment by shifting the balance of taxation from income toward consumption. Currently, because of a very narrow base, as well as extensive non-compliance, Mexico receives only about 3 percent of GDP in revenue from the VAT, well below the 6 percent raised in Argentina and 9 percent raised in Chile. The VAT-based tax

reform has been an integral element of Chile's successful drive to raise national saving. In Mexico, extensive zero rating of domestic transactions and exemptions reduce the potential VAT base by nearly half. The VAT reform should include the elimination of all zero rating for domestic transactions, leaving only exports as zero rated. Exemptions should be drastically reduced and limited to basic staples. Also, consideration should be given to raising the standard VAT rate from the present 15 percent to 18 percent, and at the same time eliminating multiple rates. Such reform could double the revenue yield from the tax.

34. The impact of this reform on low-income groups could be cushioned by an increase in the individual income tax credit. Such relief would be better targeted and more revenue-efficient than the present zero rating and exemptions (only an estimated 15 percent of the benefit from the present zero rating of food accrues to the poorest 30 percent of the population). This reform would also be consistent with the current general direction of Government strategy for the reform of consumer subsidies which involves a switch away from price interventions toward targeted income support.

35. ***Improve Tax Incentives for Saving/Investment.*** Available international evidence is highly ambiguous on the effectiveness of targeted saving and investment incentives. Mexico's system of corporate and personal income taxation is a comprehensive and modern one, and it is important not to undermine its attributes of efficiency and neutrality by introducing a number of special incentives. A fundamental tax reform that would be supportive of saving and investment is the one proposed above, that would increase the role of the VAT (a tax on consumption) relative to the income tax, and reduce the effective tax rate on the return to capital from what it would otherwise be. Down the road, if the VAT reform (together with the other tax reforms proposed here) is able to raise substantial more revenue, it might also become feasible to consider some lowering of the statutory income tax rate.

36. Beyond that, only a few, broad-based incentives may be considered. With respect to the corporate income tax, provisions that make it easier for firms to take advantage of tax losses, as occurs under a VAT, would reduce existing tax disincentives to investment in new products and technologies that are inherently risky but important to productivity growth. Given the cash flow constraints faced by new firms, another incentive to new investment meriting consideration would be to allow a faster write-off of initial capital costs. On the other hand, the temporary investment incentives introduced during the 1995 recession should be withdrawn (a revenue gain of about 0.5 percent of GDP). With respect to individual savings, consideration could be given to broadening the coverage of the present tax deduction for savings in the special savings accounts (*Cuentas Especiales de Ahorro*, or CEAs) so that the savings instruments eligible for this deduction include not just these accounts but also voluntary savings in other long-term financial assets.

37. ***Institute an Effective Property Tax.*** Mexico currently obtains negligible revenue from the property tax. In contrast, countries making a more effective use of this tax raise upwards of 2 percent of GDP from it (Canada raises 4 percent), and revenue from the tax is a mainstay of their local government finances. Property tax has attractive efficiency and equity features, and is ideally suited as a major source of revenue for local governments. Its more effective use in Mexico will require improvements in cadastral records, assessments, and the efficiency of collection by the municipal governments which administer this tax in Mexico. As part of its decentralization program, the Mexican Government is devolving increasing expenditure functions to subnational governments, but this should be underpinned by a strengthening of these governments' own-revenue generation capacity. Currently, subnational governments depend on federal transfers for as much as three-quarters of their expenditures. This heavy dependence, and burden, on federal finances must be reduced. While other local revenue-raising options should also be considered, such as additional local excises and more effective use of local user charges, strengthening the property tax should be a central element of local government revenue mobilization efforts.

38. ***Strengthen Tax Administration***. Tax administration needs to be strengthened in general. Even for the VAT, which in principle would seem less susceptible to evasion than income tax, more than one-third of potential revenue is estimated to be lost due to noncompliance. The overall problem of evasion likely is of larger proportions. While tax administration issues were not studied in detail in this report, improvement appears to be needed on several fronts—effectiveness of tax audits, enforcement, institutional capacity (especially at the subnational level). Simplifying the design of taxes that are unnecessarily complex would facilitate their administration. This is certainly the case with the VAT, with its multiple rates and extensive zero rating and exemptions. Also, public education campaigns can help in instilling a stronger sense of tax payment responsibility in the citizenry. In that regard, actions that entail the risk of moral hazard, such as those in the past and recently that provided partial forgiveness of overdue taxes, should be avoided.

(iii) Extending Pension System Reform

39. Potentially the most important policy initiative recently taken by the Government to raise the Mexican saving rate is the reform of the pension system for private sector workers that came into effect in July 1997. Under this reform, the existing defined-benefit, pay-as-you-go (PAYG) pension system for about 10 million private sector workers administered by the Mexican social security institute (IMSS) was replaced by a defined-contribution, funded system that will be managed by private pension funds known as AFORES (*Administradores de Fondos para el Retiro*). The positive impact of this reform on saving would be expected to arise both directly from the accumulation of savings in the contributors' individual accounts and the prospect of increased returns on those savings, and indirectly from the favorable capital and labor market effects of the reform and in turn from the resulting higher economic growth. The potential for a longer-term increase in saving resulting from expanded pension system coverage could also be significant, as at present Mexico's pension system covers less than 40 percent of the active labor force. Aside from the potential impact of the pension reform on saving, the positive effect of the reform on economic efficiency through increasing capital market depth and labor market flexibility would be an important gain in its own right.

40. ***Finance Pension Reform through Fiscal Adjustment***. The net impact of the pension reform on national saving will depend importantly on how the transitional fiscal costs of the reform are financed. These fiscal costs—arising from existing pensions, the acquired rights of the transition generation, government contributions to individual accounts, and minimum pension guarantees—are estimated at 1-1.5 percent of GDP annually over the next several years. Though significant, these costs are lower than those of some other pension reforms in the region, thanks to Mexico's favorable demographics and the early timing of its reform. Estimating the savings impact of pension reform is difficult as it depends, in addition to the manner in which the transitional fiscal costs of the reform are financed, on the contributors' behavioral response to the change in the pension regime, on the indirect effects of the reform working through the capital and labor markets, and also on second-round effects working through the impact on economic growth. Based on a set of simplifying assumptions, some illustrative estimates of the impact of the Mexican pension reform on national saving have been attempted in this study (see Volume 2, Paper 5 for details). These show that the increase in national saving when the transitional fiscal costs are financed through fiscal adjustment (tax increases or reduction in other spending) is on average more than twice as large as when these costs are financed through borrowing.[3] If an increase in the fiscal deficit is avoided, the increase in the national saving rate resulting from the pension reform rises gradually to reach a

[3] The difference between the national savings impact of the fiscal adjustment- and borrowing-financed pension reform diminishes to the extent private agents are "Ricardian" and respond to public dissaving by increasing their own saving.

peak of 2-2.5 percent of GDP in about ten years, based on rather conservative assumptions about the rate of return on pension fund investments and growth in the population of affiliates, and abstracting from the indirect and second-round effects of the pension reform on saving.

41. Both the short-term need to maintain a tight fiscal position to support the consolidation of macroeconomic stability and the longer-term need to increase the national saving rate to support stronger growth argue for the fiscal costs of the pension reform to be financed predominantly through fiscal adjustment. A policy that avoids absorbing the bulk of the new private pension fund balances in government borrowing to finance a fiscal deficit would also allow the pension reform to contribute more to capital market development. The Government needs to place the fiscal costs of the pension reform, alongside new pressures on the budget arising from other sources (banking system support and health insurance reform), in an integrated and medium-term framework and develop a financing plan that would accommodate the new demands on the budget while maintaining an overall fiscal balance supportive of macroeconomic stability and savings mobilization. As part of such a financing plan, the scope for reducing other spending must be explored, but, as argued above, an increase in taxes would be unavoidable. Among the tax options, financing through higher consumption taxes, such as the VAT, would have a stronger effect on saving than raising income taxes. Also, the financing of the fiscal costs of the pension reform should be transparently reflected in the budget. This is especially important in the case of the Mexican pension reform which lacks the transparency of other reforms (e.g., in Chile and Colombia) that made the pension system's accrued liabilities explicit through the issuance of pension recognition bonds.

42. ***Extend the Scope of Pension Reform.*** While the reform of the pension system for private sector workers that came into effect in 1997 is a major step forward, with a potentially significant effect on saving and economic efficiency, Mexico needs to build on this reform. Two key areas where the reform needs to be extended, and where action could appreciably strengthen the potential impact on saving and efficiency, are: the implementation of deeper reform of INFONAVIT, the housing component of private workers' pension system; and the extension of pension reform to public sector workers. True, these reforms could entail additional transitional fiscal costs, at a time when the fiscal position is already tight (para. 28), but delay would only increase the eventual fiscal cost of reform.

43. *Implement More Fundamental INFONAVIT Reform.* Under the present pension reform, 5 percent of private workers' salaries (a little over 40 percent of their total mandatory pension system contributions) will continue to flow to INFONAVIT, a public low-cost housing finance institution. Without this component, workers' contributions that will flow to the new private pension funds (AFORES) are likely to be insufficient to support adequate pensions for most workers. Workers' balances with INFONAVIT will be available to them upon retirement, alongside their balances with AFORES, but returns on INFONAVIT balances have tended to be poor, generally negative. INFONAVIT suffers from serious problems of portfolio quality and management, and its investments are a poor substitute for privately managed retirement accounts. The Government's recent reform efforts with respect to INFONAVIT have aimed at improving its performance and making it earn positive returns on workers' contributions, including the creation of contributors' individual accounts and improvement of management and auditing arrangements. Further steps in that direction would include the introduction of more market-based terms and instruments for INFONAVIT mortgage financing. Even with these improvements, however, it is doubtful that returns on INFONAVIT investments could match the potential returns on AFORE investments. Also, these improvements would leave the overall mandatory pension system portfolio (AFORES plus INFONAVIT) heavily dependent on real estate investments (over 40 percent). In the future, therefore, a more fundamental reform should be considered, including the transfer of workers' INFONAVIT contributions to AFORES, fully integrating them into the new funded and privately managed pension system. That would support both higher contribution-defined pensions and enhance the impact of

pension reform on saving. Illustrative estimates developed in Volume 2 (Paper 5) show that full integration of workers' INFONAVIT contributions into the pension system reform could possibly double the impact of the reform on saving. Delaying major INFONAVIT reform, therefore, involves a potentially large sacrifice of savings.

44. *Reform the Public Sector Pension System.* Lack of political consensus prevented the extension of the present pension system reform to public sector workers, who will remain under the old PAYG system. This includes the employees of the federal and state governments, public enterprises and the military, totaling about 2.3 million, or about a quarter of the private sector employees covered by the present reform. The partial character of the present reform not only limits its potential savings impact but could also give rise to impediments to labor mobility and inequities between the different pension subsystems. The public employee pension system, the largest part of which is ISSSTE covering all federal and some state government employees, is known to be inefficient and actuarially unsustainable. The longer the reform is delayed, the larger will be the fiscal burden of eventual reform. Preparations for public sector pension reform should start now, including estimating and publicizing its benefits and fiscal costs and creating individual records. While the focus of this reform would be ISSSTE, state government and public enterprise pension funds should also be covered (for example, federal transfers to states and public enterprises could be conditioned on the rationalization of their pension funds). Also, along the lines of what is recommended above for INFONAVIT, the public sector pension system reform should include FOVISSSTE, which is the analogue of INFONAVIT for government workers.

(iv) Developing the Financial Markets

45. Recent literature has provided increasing evidence of the contribution sound financial system development can make to economic growth, by mobilizing savings and channeling them more efficiently to investment. In addition to the traditional role of financial markets in offering savers attractive and diverse savings instruments and facilitating investors' access to finance, recent literature has emphasized their role in allowing better risk management and improving information flows and corporate governance. Financial market development is becoming increasingly important also to macroeconomic stability, as markets with greater breadth and depth are better placed to withstand possible shocks arising from the increasingly mobile and potentially volatile international capital flows. Macroeconomic and banking system crises are increasingly interrelated, as Mexico's own experience vividly illustrates. The review of Mexico's savings performance in recent years in Section B highlighted the importance of underpinning financial market liberalization with effective prudential regulation and supervision.

46. The most urgent issue in Mexico's financial sector agenda is the restoration of the crisis-stricken banking system to health and the strengthening of its regulatory and institutional underpinnings. But there is need also to intensify efforts relating to the development of the broader financial system, including capital markets. The priority of this broader reform agenda has risen with the establishment of the new private pension funds which open major new opportunities for capital market development in Mexico. The following paragraphs outline the main elements of this reform agenda for financial and capital market development in Mexico. Many of the measures considered below will have their initial effect on the efficiency rather than the level of national savings, but would promote higher savings subsequently by contributing to higher economic growth.

47. ***Banking System.*** The financial system in Mexico is dominated by commercial banks, which account for roughly 60 percent of the total financial system assets. The health and efficiency of the banking system, therefore, have a major bearing on the mobilization of savings in the economy and the

efficiency with which they are deployed. Mexico's recent economic crisis had a serious impact on its banking system, causing extensive system losses and distress, but important systemic weaknesses had been developing for some time. The banking system has suffered from several years of weak regulation and enforcement, comprehensive liability insurance, limitation of foreign competition, and deficient accounting and reporting practices. As a result of the economic crisis, it now suffers also from serious decapitalization, widespread portfolio problems, and a high degree of fragility. Ten banks had to be intervened and the Government has had to put in place several bank and debtor support schemes, entailing high fiscal costs (currently estimated at 12-13 percent of 1997 GDP in present value terms but eventually could be higher).

48. For the banking system to play its due role in raising and intermediating savings, confidence in the system must be restored and reforms implemented that would support sound and efficient development of the system in the future. A more secure, efficient and competitive banking system would make a stronger contribution to the mobilization of savings by instilling a greater sense of security among savers, by offering higher returns on savings as cost efficiencies lead to lower spreads, by being more responsive to savers' needs for a diversity of savings instruments, and by promoting viable investment opportunities through improvements in the allocation of credit. Also important is a macroeconomic environment conducive to deposit mobilization—financial stability, low inflation that allows a positive real return to savers. Past cycles of macroeconomic instability, and real interest rates that were negative for much of the 1980s, have been factors limiting the growth of the banks' deposit base. This is reflected in the banks' relatively heavy dependence on non-deposit sources of funding and in a deposit base that is narrowly concentrated in large accounts, with over 60 percent of the banks' direct funding (deposits, CDs, etc.) coming from only 0.2 percent of the accounts. The existing comprehensive bank liability insurance has contributed to this funding structure of the Mexican banks. Expanding the banks' deposit base, therefore, would contribute both to mobilizing savings and to strengthening the banks' funding structure.

49. Managing the crisis in the banking system remains a priority, but reform efforts should increasingly focus on strengthening the underlying regulatory and institutional framework. The reform agenda has three main elements. First, the Government needs to expedite the resolution of problem banks and bank assets and limit its fiscal costs, by accelerating the resolution of the intervened banks, proactively encouraging the sale/merger/consolidation of weak banks, and arranging an early disposal of the impaired bank portfolio acquired by the Government. Second, the incentives regime needs to be reformed, to reduce moral hazard in the system and improve market discipline. This includes: rolling back the comprehensive liability insurance; refraining from the introduction of any new subsidy schemes for banks or debtors; and fostering more effective competition in the system. The roll-back of liability insurance could start with institutional investors, repo transactions, and interbank loans—high-value liabilities that minimize the risk of causing depositor panic. Third, the regulatory and institutional framework underpinning the banking system needs to be strengthened significantly, including the tightening of the prudential and supervisory regime and enforcement—capital adequacy, provisioning, classification and accounting, limitation of interconnected lending, phase-out of regulatory forbearance under FOBAPROA (the official bank liability protection fund) loan purchase and restructuring schemes—and the improvement of the legal framework for bank-client interaction—laws relating to bankruptcy, foreclosure, securitization.

50. ***Pension Funds.*** Capital market development could receive a major impetus from the private pension funds being established under Mexico's recent reform of its pension system for private sector workers. Private pension funds have the potential of becoming the largest single industry in Mexico's capital market within a decade. In Chile, for example, private pension funds managed assets equivalent to 43 percent of GDP in 1994, only 12 years after their inception. With about 10 million private sector workers who will now hold individual accounts in AFORES under the Mexican pension reform, the

number of Mexicans who participate in formal financial markets will increase appreciably. Mexico must take full advantage of the capital market development opportunities that come with pension reform. The need to extend the scope of the pension reform, to incorporate public sector workers and workers' contributions to housing funds, was noted above. But whatever the scope of the reform, its contribution to retirees' welfare, national savings, government finance, and capital market development would be profoundly affected by the efficiency and investment returns of the new private pension funds (AFORES). That in turn would depend importantly on the soundness of the regulatory regime governing the AFORES and their investments.

51. The regulatory regime for AFORES should encourage effective competition among the pension funds and promote efficiency in their asset management. Regulations should allow workers an adequate choice of providers of pension fund management services as well as permit the investment of the funds in a broad range of assets and vehicles. They should also allow pension funds to specialize in particular investment vehicles, such as stocks or bonds, while permitting substantial flexibility in the admissible investment options. Thus, the requirement that every AFORE offer a bond fund, to be invested predominantly in indexed government securities, should be reviewed after the initial phase of reform. Competition, specialization, and flexibility in investment options should help contain operational costs, and hence investment management fees. CONSAR, the new pension fund regulator, will need strong institutional capacity to supervise the new system effectively, especially in view of the potential sources of moral hazard in the new system (for example, that arising from the option given to the transition generation workers to switch to the benefits of the old system at retirement). Over the medium term, consideration should be given to dismantling the segmentation between the management of mandated savings (managed by AFORES) and voluntary savings (managed by insurers, mutual funds, banks, etc.).

52. ***Stock and Bond Markets.*** For a middle-income country, Mexico's stock market is underdeveloped. Despite the boom of the early 1990s, its capitalization ratio of about 40 percent of GDP compares with ratios in the emerging market economies of East Asia that are multiples of that figure. The development of Mexico's stock market has been hindered by the periodic bouts of macroeconomic instability. But it also suffers from several structural weaknesses, which are reflected in its small number of listings (only 185 in 1995, fewer than half the number in Malaysia which has an economy about one fifth the size of Mexico's), low liquidity (a stock turnover ratio of two-thirds to less than half that in the more active East Asian markets), a high degree of concentration (about 60 percent of market trading is concentrated in only 10 stocks), inadequate legal/regulatory framework and trading system, and a reputation that is not conducive to wide participation in the market, especially by small savers and investors. These inadequacies discourage savings and investment not only directly by discouraging participation in the market, but also indirectly by hindering the development of pension and mutual funds, restructuring of enterprises, privatization, and the resolution of the portfolio problems of commercial banks.

53. The Government's stock market development strategy needs to focus on an in-depth identification of the causes of the inadequate use of this market and non-listing of the large subsidiaries of industrial conglomerates; strengthening of the legal framework for the protection of minority shareholders; improvements in the trading system, disclosure, and institutional investor guidelines; and improved self-regulation and marketing of the Mexican Stock Exchange.

54. The development of the bond markets also has been constrained by both macroeconomic volatility and structural problems, including the lack of a clear interest rate benchmark and multiplicity of interest rate bases (dollar-based, inflation-linked, nominal). Public debt management in the past tended to be dominated by the pursuit of relatively short-term goals, contributing to market instability. Public debt

issuance did not help create and maintain a long-term, complete interest rate spectrum, and hampered the development of private markets in interest-bearing securities. Measures to better support bond market development include rationalizing the public debt structure, adopting and popularizing a unified interest rate basis, removing interest rate segmentation of debt securities markets, and removing hindrances to the issuance of private debt securities and structured finance

55 ***Housing Finance.*** The financing of homes is an important motivation for (and form of) saving. Adequate housing is also an important social concern. Mexico needs to increase the depth and efficiency of its home finance market. With housing stocks amounting to between 1.5-2 times GDP, the development of housing finance can make a significant contribution to the overall development of financial markets in Mexico. At present, there is an absence of a well-conceived national policy on housing finance. The Government has engaged in efforts to provide both housing and housing finance through multiple institutions and programs. The result has been a segmentation of the housing finance market that has constrained its development, creation of public housing finance institutions that lack a clear rationale and suffer from major performance problems (especially INFONAVIT), and large costs to the treasury (with a large proportion of the mortgage portfolio going sour in the recent banking crisis).

56. Against this background, the Government is, correctly, focusing its housing finance reform efforts in three, related areas. First, it needs to develop a long-term national housing finance strategy, clearly articulating public and private roles in the housing finance market, and limiting support through subsidies/transfers to more precisely identified target groups and ensuring consistency of the implied fiscal burden with macroeconomic targets. Second, the roles of the existing public housing finance institutions (INFONAVIT, FOVISSSTE, FOVI, others) need to be rationalized. The Government has initiated reform in these institutions. These reforms should be guided by a clear vision of the future role of these institutions and the implied need for their restructuring, phase-out or privatization. Third, the growth of private housing finance market should be supported through a broad range of reforms relating to notaries and registries, collateral requirements, securitization methods, and prudential and capital adequacy guidelines to make primary mortgages and their securitization cost-effective and to encourage competition in their provision. These reforms, through facilitating product standardization and simplification and permitting better credit risk management, would both spur the primary mortgage market and, over time, aid in the sound development of the secondary market.

57. ***Asset-Backed Securities Markets.*** Given a conducive setting, markets for asset-backed securities (ABS) have the potential to approach the size of the private pension funds markets. The markets for ABS can help in the efficient mobilization of savings through supporting the development of mortgage and bond finance, instrument diversification, promotion of investment opportunities by lowering the cost of borrowing, and improved risk management by allowing the reduction of maturity mismatch risks. The development of ABS markets, however, is currently hampered not only by the widespread portfolio problems in the banking system brought on by the recent crisis but also by institutional weaknesses such as large notary and registration costs and inefficiencies, deficient land and real estate titling, lack of product standardization, tax anomalies that inadvertently penalize securitization, and an inadequate legal basis for certain simplifying structures This regulatory and institutional basis will need to be improved to enable ABS markets to play a more dynamic role in Mexico's savings and investment mobilization over the medium term as the economy rebounds and the banking system recovers from its current state of distress.

58 ***Mutual Funds and Insurance Companies.*** Basic regulation and investment guidelines for mutual funds and insurance companies are broadly adequate, but enforcement is weak and efficiency low compared to world-class standards. Further efforts at development should focus on greater openness to foreign competition, improved disclosure and enforcement, greater representation of shareholders in mutual

fund operations, participation of insurance companies and mutual funds in the management of pension funds, and maximum possible harmonization of the operations and regulation of pension funds and mutual funds.

59. ***Financial Market Infrastructure.*** A common theme cutting across the agenda for the development of the various financial markets outlined above is the need to strengthen the legal, regulatory and institutional infrastructure underlying these markers. Principal areas for action include: the adoption of the Generally Accepted Accounting Principles (GAAP) not only by banks but also by other financial intermediaries and non-financial businesses, complemented by improved disclosure and enforcement; improvements in property titling and institutional strengthening and technical upgrading of public registries; improvements in collateral laws and unification of state-level laws and procedures; improvements in bankruptcy laws and processes; development of credit and rating information services; and improvement of the technical capacity of the principal financial market regulators. Also needed is market and investor education to improve the functioning of the stock and bond markets, mutual funds and the new pension funds.

(v) Fostering Small Savings

60. Saving by the low-income population is constrained by limited access to and the poor quality of small savings services in Mexico. Rural financial markets are especially underdeveloped, limiting both rural household saving and the availability of credit to small rural enterprises. As many as two-thirds of the municipalities do not have commercial bank branches. An array of semi-formal and informal financial services exist, of which the different kinds of *cajas de ahorro* (savings and loan cooperatives) are the most important, but they are characterized by uneven coverage and a generally low level of efficiency and financial health. Financial intermediaries are discouraged from entering the market for small savings and loans because of the higher transaction and information costs involved in catering to small clients, especially when they are sparsely dispersed as is often the case in rural areas. Policies aimed at improving the quality and availability of small savings services need to have two main thrusts: reducing the transaction costs; and providing a policy and regulatory framework supportive of sound institution-building. Improved access to savings services should be complemented by public education campaigns to promote the habit of thrift.

61. ***Reduce Transaction Costs*** Informal financial services can, in many instances, meet the needs of small savers at a lower cost than can formal financial intermediaries as they are able to minimize the transaction costs. Nevertheless, there are drawbacks to informal finance: savings services remain scarce despite demand; there is limited intermediation (funding loans with deposits); in confining their credit operations to well-known local borrowers, informal lenders operate on an inefficient scale and in highly segmented markets, and often with high concentrations of risk; and an appropriate legal and supervisory framework is lacking. But informal finance need not be discouraged; rather, the emphasis should be on reducing the costs of expanding the formal financial "frontier" and, thereby, providing improved savings services to a larger proportion of the low-income population.

62. *Encourage Establishment of Rural Branches by Private Banks.* So far very few private Mexican banks have experimented with innovative ways of reducing the transaction costs of reaching small savers and the rural areas, such as through mini-branches, mobile banking, design of instruments specially tailored to the needs of low-income savers and small borrowers. However, as competition mounts both within the banking system and between banks and nonbank financial intermediaries, Mexican banks are likely to look increasingly for new, non-traditional business niches. The Government can encourage the spread of bank branches into rural areas in two ways. First, it should ensure that the bank regulatory

regime, while prudentially sound, is flexible enough to accommodate the needs of such banking. Second, it can encourage, on a pilot basis, experimentation with appropriate technologies for financial intermediation in rural areas, through provision of initial technical and financial support to the experimental rural banking units of competitively selected banks. The Government has recently initiated such a pilot program. Such experiments can pilot the innovations that have been found successful in the development of rural bank branch networks in some other countries, e.g., Indonesia and Thailand. The success of such experiments, through demonstration that rural banking can be viable and compatible with market-based pricing and allocation of credit, could induce other banks to follow.

63. *Strengthen PAHNAL.* By being able to utilize the existing network of post offices, the PAHNAL postal savings scheme has the advantage of reaping economies of scale and thereby reducing the transaction costs in mobilizing small savings in widely dispersed areas. Experience in Asia shows that such schemes can be effective in mobilizing small savings. The potential of the postal savings scheme is still greatly underutilized in Mexico, but results since PAHNAL's 1993 reform appear promising. Efforts to strengthen this scheme should continue, expanding its branch network using post offices to enlarge access and broadening the menu of accounts offered to include longer-term saving options at attractive interest rates. With good design and sound management practices, PAHNAL has the potential to bring savings services to a much larger number of low-income and rural savers without access to more formal savings services.

64. *Modernize Cajas de Ahorro and Increase Competition.* Transaction costs can be reduced by subjecting financial institutions to increased competitive pressures. So far only a handful of *cajas de ahorro*, which are private institutions specifically oriented to providing small savings and credit services, have been legally authorized to operate as savings and loan societies (SAPs). The majority remain outside the modern legal framework and supervision by a competent financial authority. International experience shows that cooperatives can play an important role in providing financial services to a clientele commercial banks tend to avoid. Nevertheless, providing large-scale legal recognition to financial cooperatives would be inadvisable. Of the variety of financial cooperatives operating in Mexico—SAPs, independent *cajas de ahorro*, *cajas solidarias*, credit unions—many are confronting severe problems which can be traced to flawed governance rules, an unhealthy dependence on external subsidized funding, inadequate diversification, and weak prudential supervision, in addition to the problems brought on by the recent economic crisis. The introduction of greater competition in the small savings market through increasing the number of legally recognized SAPs must be underpinned by policies that promote stronger such institutions. Legal recognition should be considered only in the case of those institutions that can meet strict qualifying criteria.

65. ***Support Institution-Building.*** In promoting the development of stronger institutions oriented to the mobilization of small savings, the Government needs to: encourage sound financial practices by these institutions; and strengthen the framework for their prudential regulation and supervision.

66. *Assign Subsidies to Institution-Building, not to Credits.* Interest rate ceilings and targeted credit policies should be avoided. They create distortions, engender dependence on government subsidies, undermine institutional viability, and generally are counterproductive to the equity objectives they are designed to promote. This has been precisely the experience with the Mexican credit unions; it may also prove to be the case with the *cajas solidarias*. There is a role for subsidies, but it should be to subsidize institution-building, not credits. For example, limited, one-time subsidies could be provided as seed capital to help with the start-up or upgrading of institutions, training, software, or other technical assistance that

would help the supported institutions achieve self-sustainability. What must be avoided is a longer-term, continuing dependence on subsidies.

67. *Strengthen Prudential Regulation and Supervision.* For financial cooperatives, which are non-profit institutions, regulation and supervision must be adapted to take into account their differing capital structures and to monitor the subsidy-dependence risk. Capital adequacy standards applied to non-profit institutions can achieve their first purpose: to provide a cushion against loan losses. But as these institutions do not have owners who stand to earn profits on their capital, capital adequacy standards do not in this case provide strong incentives for responsible management. Therefore, if these institutions are to take deposits from the public, they should be obliged to meet *higher* capital adequacy requirements and subjected to stricter monitoring than their for-profit counterparts. Also, cooperatives meriting legal recognition should have governance rules that are consistent with long-term stability. Those that are unviable without continual infusions of external credit at below-market interest rates should not be given legal recognition.

68. More cooperatives should be granted legal recognition only if the financial authorities have the capacity to adequately supervise them. Clearly, it is easier and less expensive to supervise a small number of relatively large institutions, such as commercial banks. But the current lack of competition in the provision of financial services to low-income Mexicans by viable institutions warrants the commitment of resources and skilled personnel to improving the supervision of cooperatives. Only with such strengthening of the regulatory and supervisory framework would it be advisable for the Government to promote cooperatives more vigorously. Promoting cooperatives by subsidizing credit or requiring the fulfillment of credit quotas and targets would be a mistake. The emphasis should instead be on supporting the development of healthy and independent institutions and ensuring their sound operation.

69. ***Promote a "Culture of Saving."*** Public education campaigns and simple but widespread advertising can reinforce the advantages of improved availability and quality of savings services. One common feature of Asian countries with high personal saving rates is the existence of a widespread "culture of saving," and public education campaigns have played a role in fostering the habit of thrift. Besides their advocacy role, such campaigns can perform a useful informational role in familiarizing the public with the available savings services and explaining instruments that many individuals may find difficult to understand—special savings accounts (CEAs), UDI denominated (inflation-indexed) instruments, mutual funds, the new private pension funds. The PAHNAL scheme provides one means for a broad-based public campaign to raise private saving. The present Government has placed strong emphasis on raising the national saving rate as part of its development policy agenda. A well-conceived, broad-based public education campaign can help propagate that message, not only to the small savers but in the economy at large.

MEXICO

STATISTICAL ANNEX

BASIC MACROECONOMIC DATA

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Note: The Statistical Annex is a compilation of macroeconomic data from official sources. In some instances, these data may differ from data in the main text of the report due to different Bank definitions and methodologies.

Table 1: Mexico: National Accounts by Expenditure, 1985-95

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 p/
A. In Current Pesos (millions)											
Gross Domestic Product	47,167	78,787	193,162	393,727	512,603	694,872	876,933	1,034,733	1,256,196	1,423,364	1,841,323
Total Consumption	34,949	61,417	144,263	304,739	399,815	544,153	699,180	838,615	1,041,738	1,180,656	1,423,660
Private Consumption	30,575	54,209	127,268	270,998	356,900	486,354	621,208	735,865	903,174	1,016,495	1,231,679
Public Consumption	4,374	7,208	16,995	33,741	42,915	57,798	77,971	102,751	138,565	164,161	191,981
Gross Domestic Investment	9,811	14,276	37,083	82,976	113,684	158,738	205,581	252,764	263,777	311,890	363,503
Gross Domestic Fixed Investment	9,048	15,415	35,667	75,199	92,220	127,728	168,486	211,933	233,179	274,861	296,708
Private Fixed Investment	5,901	10,239	25,596	55,482	67,745	94,211	129,085	169,034	185,916	221,512	235,741
Public Fixed Investment	3,147	5,176	10,071	19,717	24,474	33,517	39,401	42,899	47,264	53,349	60,967
Change in Stocks	762	-1,139	1,416	7,777	21,465	31,011	37,094	40,830	30,578	37,029	66,795
Exports a/	7,305	13,732	37,692	65,568	81,148	108,299	119,535	128,325	140,155	167,754	400,459
Imports b/	4,897	10,639	25,877	59,555	82,045	116,318	147,363	184,972	189,474	236,937	346,299
B. Shares of Gross Domestic Product (%)											
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Consumption	74.1	78.0	74.7	77.4	78.0	78.3	79.7	81.0	82.9	82.9	77.3
Private Consumption	64.8	68.8	65.9	68.8	69.6	70.0	70.8	71.1	71.9	71.4	66.9
Public Consumption	9.3	9.1	8.8	8.6	8.4	8.3	8.9	9.9	11.0	11.5	10.4
Gross Domestic Investment	20.8	18.1	19.2	21.1	22.2	22.8	23.4	24.4	21.0	21.9	19.7
Gross Domestic Fixed Investment	19.2	19.6	18.5	19.1	18.0	18.4	19.2	20.5	18.6	19.3	16.1
Private Fixed Investment	12.5	13.0	13.3	14.1	13.2	13.6	14.7	16.3	14.8	15.6	12.8
Public Fixed Investment	6.7	6.6	5.2	5.0	4.8	4.8	4.5	4.1	3.8	3.7	3.3
Change in Stocks	1.6	-1.4	0.7	2.0	4.2	4.5	4.2	3.9	2.4	2.6	3.6
Exports a/	15.5	17.4	19.5	16.7	15.8	15.6	13.6	12.4	11.2	11.8	21.7
Imports b/	10.4	13.5	13.4	15.1	16.0	16.7	16.8	17.9	15.1	16.6	18.8
C. In Constant 1980 Pesos (for years 1985-92) and Constant 1993 Pesos (for years 1993-95) (millions)											
Gross Domestic Product	4,918	4,739	4,824	4,884	5,047	5,272	5,463	5,620	1,256,196	1,312,200	1,230,925
Total Consumption	3,631	3,554	3,550	3,602	3,808	4,018	4,209	4,364	1,041,738	1,087,587	995,902
Private Consumption	3,073	2,988	2,991	3,046	3,252	3,450	3,619	3,760	903,174	945,070	855,259
Public Consumption	558	566	559	556	556	569	591	604	138,565	142,517	140,643
Gross Domestic Investment	905	729	768	858	898	995	1,070	1,227	263,777	289,991	188,992
Gross Domestic Fixed Investment	884	777	776	821	874	988	1,070	1,186	233,179	252,745	179,438
Private Fixed Investment	571	505	537	592	636	720	814	943	185,916	204,109	138,964
Public Fixed Investment	313	272	239	229	238	268	256	243	47,264	48,636	40,747
Change in Stocks	21	-48	-9	36	25	7	-1	41	30,597	37,245	9,554
Exports a/	757	776	862	912	933	967	1,011	1,028	140,155	156,082	208,098
Imports b/	375	321	357	488	592	709	827	1,000	189,474	221,459	162,066
D. Annual Real Growth Rate (%)											
Gross Domestic Product	2.5	-3.6	1.8	1.2	3.3	4.4	3.6	2.9	0.7	4.5	-6.2
Total Consumption	2.9	-2.1	-0.1	1.4	5.7	5.5	4.8	3.7	0.4	4.4	-8.4
Private Consumption	3.3	-2.8	0.1	1.8	6.8	6.1	4.9	3.9	0.2	4.6	-9.5
Public Consumption	0.9	1.5	-1.2	-0.5	-0.1	2.3	3.9	2.3	2.0	2.9	-1.3

Table 1: Mexico: National Accounts by Expenditure, 1985-95 (cont.)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 p/
Gross Domestic Investment	11.8	-19.4	5.2	11.7	4.8	10.7	7.5	14.7	-2.6	9.9	-34.8
Gross Domestic Fixed Investment	8.1	-12.0	-0.1	5.8	6.4	13.1	8.3	10.8	-1.2	8.4	-29.0
Private Fixed Investment	13.7	-11.5	6.3	10.2	7.5	13.3	13.0	15.8	-0.6	9.8	-31.9
Public Fixed Investment	-0.7	-13.0	-12.1	-4.2	3.6	12.7	-4.4	-5.0	-3.8	2.9	-16.2
Exports a/	-4.1	2.6	11.1	5.8	2.3	3.6	4.6	1.7	3.7	11.4	33.3
Imports b/	13.4	-14.4	11.1	36.7	21.3	19.7	16.8	20.9	-1.3	16.9	-26.8

a/ includes Net Maquila (in-bond industry) Exports
b/ excludes Maquila (in-bond industry) Imports
p/ preliminary

Source: Instituto Nacional de Estadistica y Geografia Informatica (INEGI), *Sistema de Cuentas Nacionales*

Table 2: Mexico: National Accounts by Industrial Origin, 1984-95

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 p/
A. In Current Pesos (millions)											
Gross Domestic Product at Market Prices	47,167	78,787	193,162	393,727	512,603	694,872	876,933	1,034,733	1,256,196	1,423,364	1,841,323
Net Indirect Taxes	4,428	6,319	18,728	35,612	47,789	66,213	86,109	102,851	101,064	113,858	158,184
Gross Domestic Product at Factor Cost	42,740	72,468	174,433	358,115	464,813	628,659	790,824	931,882	1,155,132	1,309,506	1,683,139
Agriculture	4,082	7,062	16,676	33,966	44,230	63,277	78,450	86,716	72,703	78,165	95,447
Industry	15,805	26,721	69,338	138,842	164,054	210,585	259,932	301,347	309,897	350,778	469,432
Mining	2,218	2,899	9,810	12,753	13,595	17,696	18,120	21,424	16,258	17,442	29,072
Manufacturing	11,069	19,446	49,551	105,403	124,087	156,180	192,527	215,711	219,934	245,012	350,671
Construction	2,070	3,383	7,887	15,726	19,588	27,230	36,217	48,491	55,379	69,146	68,358
Electricity, Gas & Water	449	994	2,090	4,959	6,785	9,480	13,068	15,721	18,327	19,178	21,331
Services	27,280	45,003	107,149	220,919	304,318	421,010	538,552	646,670	772,532	880,564	1,118,260
Commerce, Restaur. & Hotels	13,306	21,185	52,425	106,622	135,438	178,783	214,150	244,150	251,629	275,679	351,981
Transport & Communication	3,165	5,708	13,767	29,528	37,610	56,505	76,545	95,105	107,480	124,833	168,083
Finance, Insur. & Real Estate	3,531	6,218	13,761	30,663	52,804	80,973	108,410	136,127	183,208	211,497	308,361
Community, Soc. & Pers. Services	7,831	12,918	29,725	59,839	81,472	112,301	150,462	194,880	263,922	311,031	380,048
Imputed Bank Services	-554	-1,026	-2,529	-5,734	-3,006	-7,552	-11,015	-23,592	-33,707	-42,477	-90,214
B. Shares of Gross Domestic Product (%)											
Gross Domestic Product at Market Prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net Indirect Taxes	9.4	8.0	9.7	9.0	9.3	9.5	9.8	9.9	8.0	8.0	8.6
Gross Domestic Product at Factor Cost	90.6	92.0	90.3	91.0	90.7	90.5	90.2	90.1	92.0	92.0	91.4
Agriculture	8.7	9.0	8.6	8.6	8.6	9.1	8.9	8.4	5.8	5.5	5.2
Industry	33.5	33.9	35.9	35.3	32.0	30.3	29.6	29.1	24.7	24.6	25.5
Mining	4.7	3.7	5.1	3.2	2.7	2.5	2.1	2.1	1.3	1.2	1.6
Manufacturing	23.5	24.7	25.7	26.8	24.2	22.5	22.0	20.8	17.5	17.2	19.0
Construction	4.4	4.3	4.1	4.0	3.8	3.9	4.1	4.7	4.4	4.9	3.7
Electricity, Gas & Water	1.0	1.3	1.1	1.3	1.3	1.4	1.5	1.5	1.5	1.3	1.2
Services	57.8	57.1	55.5	56.1	59.4	60.6	61.4	62.5	61.5	61.9	60.7
Commerce, Restaur. & Hotels	28.2	26.9	27.1	27.1	26.4	25.7	24.4	23.6	20.0	19.4	19.1
Transport & Communication	6.7	7.2	7.1	7.5	7.3	8.1	8.7	9.2	8.6	8.8	9.1
Finance, Insur. & Real Estate	7.5	7.9	7.1	7.8	10.3	11.7	12.4	13.2	14.6	14.9	16.7
Community, Soc. & Pers. Services	16.6	16.4	15.4	15.2	15.9	16.2	17.2	18.8	21.0	21.9	20.6
Imputed Bank Services	-1.2	-1.3	-1.3	-1.5	-0.6	-1.1	-1.3	-2.3	-2.7	-3.0	-4.9
C. In Constant 1980 Pesos (for years 1980-92) and Constant 1993 Pesos (for years 1993-95) (millions)											
Gross Domestic Product at Market Prices	4,918	4,739	4,824	4,884	5,047	5,272	5,463	5,620	1,256,196	1,312,200	1,230,925
Net Indirect Taxes	462	380	468	442	471	502	536	559	101,064	105,526	99,036
Gross Domestic Product at Factor Cost	4,456	4,359	4,356	4,442	4,577	4,769	4,926	5,061	1,155,132	1,206,674	1,131,889
Agriculture	416	405	410	395	386	409	413	409	72,703	73,373	74,099
Industry	1,562	1,474	1,523	1,559	1,645	1,738	1,797	1,853	309,897	324,810	299,634
Mining	182	174	183	184	183	188	189	193	16,258	16,670	16,223
Manufacturing	1,051	996	1,026	1,059	1,135	1,204	1,252	1,281	219,934	228,892	217,839
Construction	..	..	..	245	250	268	274	296	55,379	60,048	45,958
Electricity, Gas & Water	..	..	..	71	77	79	81	83	18,327	19,201	19,614
Services	2,942	2,857	2,890	2,997	3,016	3,124	3,253	3,355	772,532	808,491	758,155
Commerce, Restaur. & Hotels	..	..	..	1,255	1,302	1,355	1,414	1,464	251,629	268,696	226,896
Transport & Communication	..	..	..	312	325	347	367	395	107,480	116,842	111,081
Finance, Insur. & Real Estate	..	..	..	532	548	569	590	612	183,208	193,146	192,526
Community, Soc. & Pers. Services	..	..	..	898	911	928	962	968	263,922	267,243	261,067
Imputed Bank Services	..	..	..	0	-69	-74	-80	-85	-33,707	-37,436	-33,416

Table 2: Mexico: National Accounts by Industrial Origin (cont.)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
					D. Annual Real Growth Rate (%)						
Gross Domestic Product at Market Prices	2.5	-3.6	1.8	1.2	3.3	4.4	3.6	2.9	0.7	4.5	-6.2
Net Indirect Taxes	19.1	-17.7	23.1	-5.6	6.5	6.8	6.8	4.1	-4.5	4.4	-6.2
Gross Domestic Product at Factor Cost	1.1	-2.2	-0.1	2.0	3.0	4.2	3.3	2.7	1.3	4.5	-6.2
Agriculture	3.7	-2.7	1.4	-3.8	-2.3	5.9	1.0	-1.0	1.4	0.9	1.0
Industry	4.8	-5.6	3.3	2.4	5.5	5.7	3.4	3.1	0.2	4.8	-7.8
Mining	-0.1	-4.1	5.3	0.4	516.5	6.1	4.0	2.3	-0.8	2.5	-2.7
Manufacturing	6.1	-5.3	3.0	3.2	7.2	6.1	4.0	2.3	0.9	4.1	-4.8
Construction	..	..	..	..	2.1	6.9	2.4	7.8	2.8	8.4	-23.5
Electricity, Gas & Water	..	..	..	..	7.7	2.9	2.7	3.0	4.2	4.8	2.2
Services	1.3	-2.9	1.2	3.7	0.6	3.6	4.1	3.1	0.7	4.7	-6.2
Commerce, Restaur. & Hotels	..	..	..	..	3.8	4.1	4.3	3.6	-1.3	6.8	-15.6
Transport & Communication	..	..	..	..	4.2	6.6	5.8	7.6	3.3	8.7	-4.9
Finance, Insur. & Real Estate	..	..	..	..	2.9	3.9	3.8	3.7	4.7	5.4	-0.3
Community, Soc. & Pers. Services	..	..	..	..	1.4	1.8	3.7	0.6	1.2	1.3	-2.3
Imputed Bank Services	..	..	..	..	..	6.5	8.0	6.4	11.2	11.1	-10.7

p/ preliminary

Source: Instituto Nacional de Estadistica y Geografia Informatica (INEGI), *Sistema de Cuentas Nacionales*

Table 3: Mexico: Savings-Investment Balance, 1985-95

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 p/
A. In Current Pesos (millions)											
Gross Domestic Product	47,167	78,787	193,162	393,727	512,603	694,872	876,933	1,034,733	1,256,196	1,423,364	1,841,323
minus Total Consumption	34,949	61,417	144,263	304,739	399,815	544,153	699,180	838,615	1,041,738	1,180,656	1,423,660
= Gross Domestic Savings	12,219	17,370	48,899	88,988	112,788	150,719	177,753	196,117	214,458	242,708	417,663
equals Investment	9,811	14,276	37,083	82,976	113,684	158,738	205,581	252,764	263,777	311,890	363,503
plus Resource Balance	2,408	3,094	11,816	6,012	-897	-8,019	-27,828	-56,646	-49,319	-69,183	54,160
Gross Domestic Savings	12,219	17,370	48,899	88,988	112,788	150,719	177,753	196,117	214,458	242,708	417,663
plus Net Factor Income from Abroad	-2,312	-4,600	-9,373	-16,471	-20,436	-24,259	-25,982	-29,693	-35,644	-43,918	-85,518
plus Net Current Transfers	510	964	2,645	5,130	6,262	11,189	9,028	10,480	11,343	12,766	25,421
= National Savings	10,417	13,733	42,170	77,648	98,614	137,649	160,800	176,904	190,158	211,556	357,566
equals Investment	9,811	14,276	37,083	82,976	113,684	158,738	205,581	252,764	263,777	311,890	363,503
plus Current Account Balance	607	-543	5,087	-5,328	-15,071	-21,089	-44,781	-75,860	-73,619	-100,335	-5,937
B. Shares of GDP (%)											
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
minus Total Consumption	74.1	78.0	74.7	77.4	78.0	78.3	79.7	81.0	82.9	82.9	77.3
= Gross Domestic Savings	25.9	22.0	25.3	22.6	22.0	21.7	20.3	19.0	17.1	17.1	22.7
equals Investment	20.8	18.1	19.2	21.1	22.2	22.8	23.4	24.4	21.0	21.9	19.7
plus Resource Balance	5.1	3.9	6.1	1.5	-0.2	-1.2	-3.2	-5.5	-3.9	-4.9	2.9
Gross Domestic Savings											
plus Net Factor Income from Abroad	-4.9	-5.8	-4.9	-4.2	-4.0	-3.5	-3.0	-2.9	-2.8	-3.1	-4.6
plus Net Current Transfers	1.1	1.2	1.4	1.3	1.2	1.6	1.0	1.0	0.9	0.9	1.4
= National Savings	22.1	17.4	21.8	19.7	19.2	19.8	18.3	17.1	15.1	14.9	19.4
equals Investment	20.8	18.1	19.2	21.1	22.2	22.8	23.4	24.4	21.0	21.9	19.7
plus Current Account Balance	1.3	-0.7	2.6	-1.4	-2.9	-3.0	-5.1	-7.3	-5.9	-7.0	-0.3

p/ preliminary

Source: Instituto Nacional de Estadistica y Geografia Informatica (INEGI), *Sistema de Cuentas Nacionales*

Table 4: Mexico: International Trade, 1985-95
(US$ million)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Merchandise Exports	22,931	17,452	22,093	22,883	25,843	30,390	30,905	32,259	35,453	40,416	53,363
Petroleum	14,767	6,307	8,630	6,711	7,876	10,104	8,166	8,307	7,418	7,445	8,423
Manufactured Goods a/	6,245	8,537	11,344	13,841	15,608	17,507	19,819	21,484	25,252	29,936	40,379
Other Goods	1,919	2,608	2,119	2,331	2,359	2,779	2,919	2,469	2,782	3,035	4,561
Merchandise Imports	14,533	12,433	13,305	20,274	25,438	31,272	38,184	48,193	48,924	58,880	46,274
Consumer Goods	1,082	846	768	1,922	3,499	5,099	5,834	7,744	7,842	9,510	5,335
Intermediate Goods b/	10,287	8,632	9,907	14,325	17,171	19,384	23,762	28,893	30,025	36,048	32,242
Capital Goods	3,165	2,954	2,631	4,027	4,769	6,790	8,588	11,556	11,056	13,322	8,697

a/ includes Net Maquila (in-bond industry) Exports
b/ excludes Maquila (in-bond industry) Imports

Source: Banco de Mexico

Table 5: Mexico: Balance of Payments, 1985-95
(US$ million at current prices)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Exports of Goods and Non-Factor Services	27,726	22,024	27,509	28,951	33,035	38,411	39,695	41,451	44,872	50,717	63,041
Merchandise a/	22,931	17,452	22,093	22,883	25,843	30,390	30,905	32,259	35,453	40,416	53,363
Services	4,795	4,572	5,416	6,068	7,192	8,021	8,790	9,192	9,419	10,301	9,678
Imports of Goods and Non-Factor Services	19,915	17,454	18,387	26,338	33,098	41,215	48,725	59,681	60,473	71,149	55,258
Merchandise b/	14,533	12,433	13,305	20,274	25,438	31,272	38,184	48,193	48,924	58,880	46,274
Services	5,382	5,021	5,082	6,064	7,660	9,943	10,541	11,488	11,549	12,270	8,983
Resource Balance	7,811	4,571	9,121	2,613	-63	-2,804	-9,030	-18,230	-15,601	-20,432	7,783
Net Factor Income	-8,998	-7,519	-6,801	-7,246	-8,302	-8,625	-8,608	-9,595	-11,439	-13,012	-13,322
Factor Receipts	2,294	1,961	2,416	3,064	3,181	3,347	3,600	2,876	2,790	3,367	3,810
Factor Payments	11,292	9,480	9,217	10,310	11,483	11,972	12,208	12,471	14,229	16,379	17,132
Interest (due) c/	10,220	8,375	9,006	8,931	9,672	7,874	8,730	7,772	8,101	9,237	11,127
Total Interest Paid	10,220	8,375	8,296	8,712	9,310	7,304	8,186	7,538	8,101	9,237	11,127
Net Adjustments to Scheduled Interest	0	0	710	219	362	570	544	234	0	0	0
Other Factor Payment	1,071	1,105	211	1,379	1,811	4,098	3,478	4,699	6,128	7,142	6,005
Net Private Current Transfers	1,986	1,575	1,919	2,257	2,544	3,978	2,991	3,386	3,640	3,783	3,960
Current Receipts	2,014	1,590	1,937	2,272	2,560	3,992	3,010	3,406	3,657	3,822	3,995
Of which Workers' Remittances	173	180	207	209	1,821	1,980	2,414	2,704	2,380	2,653	2,785
Current Payments	28	15	18	15	16	14	19	19	17	40	35
Current Account Balance	800	-1,374	4,239	-2,376	-5,821	-7,451	-14,647	-24,438	-23,399	-29,662	-1,579
Private Investment											
Direct Foreign Investment	1,984	2,401	2,635	2,880	3,176	2,633	4,761	4,393	4,389	10,973	9,773
Portfolio Investment	-596	-519	-1,004	1,000	351	3,370	12,753	18,041	28,919	8,182	-9,715
Net Long-Term Borrowing	-22	552	3,778	-1,488	-1,460	9,224	4,171	54	2,495	4,629	15,930
Disbursements	5,050	4,975	7,173	4,710	3,973	12,045	8,425	12,432	17,436	16,130	27,215
Repayments (scheduled) c/	5,072	4,423	3,593	6,198	5,560	3,025	4,415	12,454	14,941	11,501	11,285
Total Principal Repaid	5,072	4,423	3,395	6,198	5,433	2,821	4,254	12,378	14,941	11,501	11,285
Net Adjustments to Scheduled Repayments	0	0	198	0	127	204	161	76	0	0	0
Net Other Long-Term Inflows	0	0	0	0	0	0	0	0	0	0	0
Adjustments to Scheduled Debt Service c/	0	0	908	219	489	774	705	310	0	0	0
Other Capital Flows	-4,589	-458	-4,456	-4,543	3,700	-5,184	-50	2,660	-6,464	-12,513	-4,819
Net Short-Term Capital c/	-990	450	-100	2,079	783	7,420	5,775	2,678	11,722	3,065	-2,022
Net Capital Flows n e i.	-692	-169	-7,406	-3,527	-164	-15,124	-3,658	943	-15,044	-12,265	1,686
Errors and Omissions	-2,907	-739	3,050	-3,095	3,081	2,520	-2,167	-961	-3,142	-3,314	-4,483
Change in Net International Reserves (- indicate increase in assets)	2,423	-603	-6,100	4,307	-436	-3,367	-7,694	-1,020	-5,941	18,391	-9,591
Memorandum Items:											
Total Gross Reserves (excl. Gold) d/	4,906	5,670	12,464	5,279	6,329	9,863	17,726	18,942	25,110	6,278	16,847
Total Gross Reserves in Months Imports of G&S	1.9	2.6	5.5	1.8	1.7	2.2	3.5	3.2	4.0	0.9	2.8
Exchange Rates											
Annual Average	0.2569	0.6118	1.3782	2.2731	2.4615	2.8126	3.0184	3.0947	3.1160	3.3751	6.4194
At End of Year	0 3717	0.9235	2.2097	2.2810	2.6410	2.9454	3.0710	3.1154	3.1059	5.3250	7.6425
Index of Real Exchange Rate (1980 = 100)	136	177	179	143	135	129	117	107	101	105	153
Current Account Balance as % of GDP	0.4	-1.1	3.0	-1.4	-2.8	-3.0	-5.0	-7.3	-5.8	-7.0	-0.6

a/ includes Net Maquila (in-bond industry) Exports
b/ excludes Maquila (in-bond industry) Imports
c/ based on external debt data reported by the World Bank
d/ based on data reported by the International Monetary Fund

Sources: Banco de Mexico; World Bank, *Global Development Finance (formerly World Debt Tables)*; and, International Monetary Fund, *International Financial Statistics*

Table 6: Mexico: External Debt Stocks and Flows, 1985-95

(US$ million at current prices)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
A. Gross Disbursements											
Public and Publicly-Guaranteed	3,935	3,276	6,927	4,507	2,904	9,985	6,075	7,319	8,383	8,665	19,830
Official Multilateral Creditors	1,144	1,444	1,084	1,631	1,618	3,647	2,114	1,749	1,483	1,281	2,670
of which: IBRD	840	1,016	983	1,347	1,297	3,326	1,581	1,352	1,098	943	1,733
Official Bilateral Creditors	461	865	700	629	523	1,820	757	1,151	1,326	813	10,752
Private Creditors	2,330	967	5,143	2,247	763	4,518	3,204	4,419	5,574	6,571	6,409
of which: Bonds	43	0	0	0	0	975	1,324	1,157	3,750	4,388	5,522
Private Non-Guaranteed	1,115	1,700	247	203	1,070	2,060	2,394	5,113	9,010	7,439	7,879
Total Long-Term Loan Disbursements	5,050	4,976	7,174	4,710	3,974	12,045	8,469	12,432	17,392	16,104	27,709
Net Short-Term Credit	-990	450	-100	2,079	783	7,420	5,775	2,678	2,746	4,318	-2,023
Drawings from the IMF	300	870	786	470	1,209	2,184	1,276	328	0	0	13,288
Total Disbursements	4,360	6,295	7,860	7,260	5,965	21,649	15,520	15,439	20,138	20,422	38,974
B. Amortizations											
Public and Publicly-Guaranteed	3,358	2,646	2,311	3,280	2,403	2,625	3,645	10,320	5,957	6,584	5,891
Official Multilateral Creditors	716	734	699	881	890	1,037	1,211	1,259	1,276	1,423	1,714
of which: IBRD	335	424	567	673	677	801	954	981	991	1,065	1,411
Official Bilateral Creditors	381	310	197	382	314	249	268	1,022	1,513	1,296	1,367
Private Creditors	2,260	1,602	1,415	2,016	1,199	1,339	2,166	8,040	3,168	3,866	2,810
of which: Bonds	520	554	749	1,130	259	464	84	4,592	650	1,113	1,434
Private Non-Guaranteed	2,016	1,990	1,084	2,918	3,030	196	609	2,058	8,983	4,917	5,394
Total Long-Term Loan Amortization	5,374	4,636	3,395	6,198	5,433	2,821	4,254	12,378	14,941	11,501	11,285
Repayments to the IMF	0	147	367	563	820	1,191	1,105	896	1,175	1,204	1,163
Total Amortization	5,374	4,783	3,762	6,761	6,253	4,012	5,359	13,274	16,116	12,705	12,448
C. Net Disbursements											
Public and Publicly-Guaranteed	577	629	4,616	1,227	501	7,360	2,430	-3,001	2,425	2,081	13,939
Official Multilateral Creditors	428	710	384	750	728	2,610	903	490	207	-142	956
of which: IBRD	505	592	416	674	620	2,524	627	370	107	-123	322
Official Bilateral Creditors	80	555	504	247	209	1,571	489	130	-187	-482	9,385
Private Creditors	70	-636	3,728	231	-436	3,179	1,038	-3,621	2,405	2,705	3,599
of which: Bonds	-477	-554	-749	-1,130	-259	511	1,240	-3,435	3,099	3,275	4,088
Private Non-Guaranteed	-901	-290	-837	-2,715	-1,960	1,864	1,785	3,055	27	2,523	2,485
Total Long-Term Loan Net Disbursements	-324	339	3,779	-1,488	-1,459	9,224	4,215	54	2,452	4,603	16,424
Net Short-Term Credit	-990	450	-100	2,079	783	7,420	5,775	2,678	2,746	4,318	-2,023
Net Credit from the IMF	300	723	419	-93	389	993	171	-568	-1,175	-1,204	12,125
Total Net Disbursements	-1,014	1,512	4,098	499	-287	17,637	10,161	2,165	4,022	7,717	26,527

Table 6: Mexico: External Debt Stocks and Flows (cont.)

(US$ million at current prices)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
D. Interest and Charges											
Public and Publicly-Guaranteed	7,516	6,175	6,294	6,632	7,088	5,218	5,613	5,043	4,708	5,197	6,247
Official Multilateral Creditors	386	579	750	832	809	1,005	1,126	1,176	1,196	1,232	1,291
of which: IBRD	262	395	505	574	567	751	861	892	905	923	961
Official Bilateral Creditors	196	184	183	295	314	373	551	716	723	762	1,374
Private Creditors	6,934	5,413	5,360	5,504	5,965	3,840	3,935	3,152	2,789	3,203	3,582
of which: Bonds	465	407	363	410	457	1,112	3,084	2,527	2,206	2,611	2,852
Private Non-Guaranteed	1,866	1,500	1,369	911	828	582	610	832	1,146	1,358	1,723
Total Interest on Long-Term Loans	9,382	7,675	7,663	7,543	7,916	5,800	6,223	5,875	5,854	6,556	7,971
Interest on Short-Term Credit	636	434	350	830	997	982	1,423	1,160	1,822	2,448	2,611
Interest on IMF Drawings	202	266	283	339	398	522	541	503	426	233	545
Total Interest Paid	10,220	8,375	8,296	8,712	9,310	7,304	8,186	7,538	8,101	9,237	11,127
E. External Debt (DOD)											
Public and Publicly-Guaranteed	72,703	74,726	84,358	80,598	76,114	75,974	77,825	71,105	74,989	79,284	94,028
Official Multilateral Creditors	6,017	8,177	10,380	10,333	10,753	14,302	15,475	15,537	16,077	17,075	18,643
of which: IBRD	4,034	5,566	7,346	7,427	7,821	11,030	11,928	11,966	12,322	13,038	13,824
Official Bilateral Creditors	2,826	3,864	5,306	5,746	6,041	8,461	9,617	9,702	10,017	10,391	19,792
Private Creditors	63,861	62,686	68,671	64,520	59,321	53,211	52,733	45,866	48,896	51,818	55,593
of which: Bonds	3,689	2,258	2,849	4,203	3,743	40,100	40,660	35,018	37,616	41,045	45,195
Private Non-Guaranteed	15,745	15,103	14,148	5,931	3,971	5,835	7,620	10,675	15,539	17,489	18,587
Total Long-Term DOD	88,448	89,829	98,506	86,529	80,085	81,809	85,445	81,780	90,528	96,772	112,615
Short-Term Debt	5,450	5,900	5,800	7,879	8,662	16,082	21,857	24,535	36,257	39,323	37,300
Use of IMF Credit	2,969	4,060	5,163	4,804	5,091	6,551	6,766	5,950	4,787	3,860	15,828
Total DOD	96,867	99,789	109,469	99,213	93,838	104,442	114,068	112,265	131,572	139,955	165,744
G. Debt and Debt Burden Indicators											
Total Debt Service	15,293	12,945	12,058	15,473	15,563	11,316	13,545	20,812	24,217	21,942	23,556
Interest	5,072	4,570	3,762	6,761	6,253	4,012	5,359	13,274	16,116	12,705	12,429
Principal	10,220	8,375	8,296	8,712	9,310	7,304	8,186	7,538	8,101	9,237	11,127
Total DOD and TDS (%)											
DOD/Exports (XGS) Ratio	320.8	412.9	363.3	307.9	246.7	238.8	249.5	238.7	262.9	246.7	238.0
DOD/GDP Ratio	52.8	77.5	78.1	57.3	45.1	42.3	39.3	33.6	32.6	33.2	57.8
TDS/Exports (XGS + WR) Ratio	50.6	53.6	40.0	48.0	40.9	25.9	29.6	44.3	48.4	38.7	33.8
IBRD Exposure Indicators (%)											
IBRD DS/Public Loan DS	5.5	9.1	11.6	11.5	11.6	16.2	16.6	11.2	15.5	15.0	17.2
Preferred Creditor DS/Public DS	9.3	16.8	22.7	24.2	27.2	39.3	36.5	22.9	33.2	31.0	33.9
IBRD DS/Exports (XGS)	2.0	3.4	3.6	3.9	3.3	3.6	4.0	4.0	3.8	3.5	3.4
Country Share in IBRD Portfolio	7.78	8.02	8.11	8.7	9.14	11.35	11.72	12.11	11.91	11.83	11.98

Source: World Bank, *Global Development Finance (formerly World Debt Tables)*

Table 7: Mexico: Public Finance, 1985-95

(At current prices and exchange rates)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
A. Government Budget (in million Pesos)											
Total Current Revenues	14,833	24,036	57,559	113,855	138,995	187,729	222,904	266,333	286,212	322,464	425,181
Direct Taxes	1,923	3,365	7,655	19,468	25,909	32,972	42,990	57,945	69,221	72,900	75,288
Indirect Taxes	2,865	5,472	12,871	27,379	34,372	45,317	60,727	68,819	73,933	87,417	95,941
On Domestic Goods and Services	2,559	4,791	11,383	25,616	30,528	39,005	50,811	55,935	61,249	74,709	84,575
On International Trade	306	681	1,488	1,763	3,844	6,312	9,916	12,884	12,684	12,708	11,366
Non-Tax Receipts	10,045	15,199	37,034	67,009	78,714	109,440	119,187	139,569	143,059	162,147	253,951
Total Cuurent Expenditures	15,593	30,403	76,501	141,570	151,562	182,952	194,465	210,929	244,936	273,321	366,417
Interest on External Debt	1,918	3,848	8,792	15,482	18,866	17,709	18,355	16,350	14,537	16,667	30,446
Interest on Domestic Debt	3,637	9,541	29,583	51,456	48,244	49,409	29,872	24,497	18,796	16,253	40,797
Transfers to the Private Sector	1,117	2,032	4,326	8,146	9,365	10,282	16,902	33,299	50,902	65,547	72,313
Transfers to Other NFPS	1,275	2,042	5,133	11,132	14,377	20,717	27,019	33,000	37,701	41,632	49,193
Subsidies	0	0	0	0	0	0	0	0	0	0	0
Consumption	7,647	12,940	28,667	55,354	60,711	84,835	102,317	103,783	122,999	133,222	173,668
Wages and Salaries	2,957	4,832	11,571	21,089	27,352	34,679	44,797	42,340	50,522	56,975	67,206
Other Consumption	4,690	8,108	17,096	34,265	33,359	50,155	57,520	61,443	72,477	76,247	106,462
Budgetary Savings	-761	-6,367	-18,941	-27,715	-12,567	4,777	28,439	55,404	41,276	49,144	58,763
Capital Revenues	0	0	0	0	0	0	0	0	0	0	0
Total Capital Expenditures	2,156	3,853	9,221	13,953	16,288	26,300	33,460	40,356	37,242	52,076	57,877
Capital Transfers	335	806	2,089	1,849	2,099	5,717	5,739	10,200	5,578	9,748	12,670
Budgetary Fixed Investment	1,820	3,047	7,132	12,104	14,188	20,583	27,721	30,156	31,664	42,328	45,206
Overall Balance	-2,916	-10,220	-28,162	-41,668	-28,854	-21,523	-5,021	15,048	4,034	-2,932	887
B. Shares of GDP (In %)											
Total Current Revenues	31.4	30.5	29.8	28.9	27.1	27.0	25.4	25.7	22.8	22.7	23.1
Direct Taxes	4.1	4.3	4.0	4.9	5.1	4.7	4.9	5.6	5.5	5.1	4.1
Indirect Taxes	6.1	6.9	6.7	7.0	6.7	6.5	6.9	6.7	5.9	6.1	5.2
On Domestic Goods and Services	5.4	6.1	5 9	6.5	6.0	5.6	5.8	5.4	4.9	5.2	4.6
On International Trade	0.6	0.9	0.8	0.4	0.7	0.9	1.1	1.2	1.0	0.9	0.6
Non-Tax Receipts	21.3	19.3	19 2	17.0	15.4	15.7	13.6	13.5	11.4	11.4	13.8
Total Cuurent Expenditures	33.1	38.6	39.6	36.0	29.6	26.3	22.2	20.4	19.5	19.2	19.9
Interest on External Debt	4.1	4.9	4.6	3.9	3.7	2.5	2.1	1.6	1.2	1 2	1.7
Interest on Domestic Debt	7.7	12.1	15.3	13.1	9.4	7.1	3.4	2.4	1.5	1.1	2.2
Transfers to the Private Sector	2.4	2.6	2.2	2.1	1.8	1.5	1.9	3.2	4.1	4.6	3.9
Transfers to Other NFPS	2.7	2.6	2.7	2.8	2.8	3.0	3.1	3.2	3.0	2.9	2.7
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Consumption	16.2	16.4	14.8	14.1	11.8	12.2	11.7	10.0	9.8	9.4	9.4
Wages and Salaries	6.3	6.1	6.0	5.4	5.3	5.0	5.1	4.1	4.0	4.0	3.6
Other Consumption	9.9	10.3	8.9	8.7	6.5	7.2	6.6	5.9	5.8	5.4	5.8
Budgetary Savings	-1.6	-8.1	-9.8	-7 0	-2.5	0.7	3.2	5.4	3.3	3.5	3.2
Capital Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Capital Expenditures	4.6	4.9	4.8	3.5	3.2	3.8	3.8	3.9	3.0	3.7	3.1
Capital Transfers	0 7	1.0	1.1	0.5	0.4	0.8	0.7	1.0	0.4	0.7	0.7
Budgetary Fixed Investment	3.9	3.9	3.7	3.1	2.8	3.0	3.2	2.9	2.5	3.0	2.5
Overall Balance	-6.2	-13.0	-14.6	-10.6	-5.6	-3.1	-0.6	1.5	0.3	-0.2	0.0

Source: Hacienda and International Monetary Fund

Table 8: Mexico: Monetary Survey, 1985-95

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
A. Annual Flows (in million Pesos)											
Net Foreign Assets	311	2,208	19,534	-16,895	895	2,480	14,090	7,292	17,597	-59,801	-2,181
Domestic Credit	6,888	17,048	35,303	46,210	52,602	69,966	84,678	68,958	45,058	127,582	28,373
To Government	5,017	12,819	19,635	27,349	12,531	11,397	-4,404	-42,378	-42,027	-50,891	57,101
Central Government	4,670	11,320	16,525	26,330	8,600	12,857	-2,097	-43,238	-45,047	-56,705	67,211
State & Local Governments	3	16	159	71	1,184	1,189	1,207	1,011	4,114	5,885	-9,514
Non-Financial Public Enterprises	344	1,483	2,951	948	2,747	-2,649	-3,514	-151	-1,094	-71	-596
To Rest of Economy	1,871	4,229	15,668	18,861	40,071	58,569	89,082	111,336	87,085	178,473	-28,728
Private Sector	1,795	3,581	13,850	18,738	40,347	60,040	87,191	109,255	82,212	169,419	-28,280
Other Financial Institutions	76	648	1,818	123	-276	-1,471	1,891	2,081	4,873	9,054	-448
Total Assets = Total Liabilities	7,199	19,256	54,837	29,315	53,497	72,446	98,768	76,250	62,655	67,781	26,192
Money and Quasi-Money	3,604	9,363	31,357	-9,208	50,370	71,134	81,383	56,258	43,875	75,281	140,372
Money	1,147	2,328	6,837	8,564	7,896	18,352	58,788	15,993	21,682	1,527	5,143
Quasi-Money	2,457	7,035	24,520	-17,772	42,474	52,782	22,595	40,265	22,193	73,754	135,229
Net Other Liabilities	3,595	9,893	23,480	38,523	3,127	1,312	17,385	19,992	18,780	-7,500	-114,180
B. End-of-Year Stocks (in million Pesos)											
Net Foreign Assets	1,646	3,854	23,388	6,493	7,388	9,868	23,958	31,250	48,848	-10,953	-13,134
Domestic Credit	16,767	33,815	69,118	115,328	167,930	237,896	322,574	391,532	436,590	564,172	592,545
To Government	11,171	23,990	43,625	70,974	83,505	94,902	90,498	48,120	6,093	-44,798	12,303
Central Government	9,740	21,060	37,585	63,915	72,515	85,372	83,275	40,037	-5,010	-61,715	5,496
State & Local Governments	76	92	251	322	1,506	2,695	3,902	4,913	9,027	14,912	5,398
Non-Financial Public Enterprises	1,355	2,838	5,789	6,737	9,484	6,835	3,321	3,170	2,076	2,005	1,409
To Rest of Economy	5,596	9,825	25,493	44,354	84,425	142,994	232,076	343,412	430,497	608,970	580,242
Private Sector	5,177	8,758	22,608	41,346	81,693	141,733	228,924	338,179	420,391	589,810	561,530
Other Financial Institutions	419	1,067	2,885	3,008	2,732	1,261	3,152	5,233	10,106	19,160	18,712
Total Assets = Total Liabilities	18,413	37,669	92,506	121,821	175,318	247,764	346,532	422,782	485,438	553,219	579,411
Money and Quasi-Money	11,936	21,299	52,656	43,448	93,818	164,952	246,335	302,593	346,468	421,749	562,121
Money (M1)	3,462	5,790	12,627	21,191	29,087	47,439	106,227	122,220	143,902	145,429	150,572
Quasi-Money	8,474	15,509	40,029	22,257	64,731	117,513	140,108	180,373	202,566	276,320	411,549
Net Other Liabilities	6,477	16,370	39,850	78,373	81,500	82,812	100,197	120,189	138,970	131,470	17,290
C. Factors Accounting for Monetary Expansion (as % of Money and Quasi-Money)											
Net Foreign Assets	13.8	18.1	44.4	14.9	7.9	6.0	9.7	10.3	14.1	-2.6	-2.3
Credit to Government	93.6	112.6	82.8	163.4	89.0	57.5	36.7	15.9	1.8	-10.6	2.2
Credit to Rest of Economy	46.9	46.1	48.4	102.1	90.0	86.7	94.2	113.5	124.3	144.4	103.2
Net Other Liabilities (-)	54.3	76.9	75.7	180.4	86.9	50 2	40 7	39.7	40.1	31.2	3.1
Total Increase in Money and Quasi-Money	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
D. Money, Credit and Interest Rates (%)											
Annual Growth Rate in Money and Quasi-Money	43.3	78.4	147.2	-17.5	115.9	75.8	49.3	22.8	14.5	21.7	33.3
Annual Growth Rate in Private Credit	50.2	75.6	159.5	74.0	90.3	69.4	62.3	48.0	25.4	41.5	-4.7
Increase in Private Credit as % of Increase in Domestic Credit	27.2	24.8	44.4	40.8	76.2	83.7	105.2	161.5	193.3	139.9	-101.3
Interest Rates (percent p.a.):											
Ave Rate on Money Market	62.44	88.01	95.59	69.01	47.43	37.36	23.58	18.87	17.39	16.47	50.52
Rate on 13-Week Treasury Bills	63.20	..	103.07	69.15	44.99	34.76	19.28	15.62	15.03	14.10	48.44
Deposit Rate	59.48	84.68	97.24	63.65	36.29	31.24	17.10	15.68	15.46	13.26	39.18
Average Cost of Funds	56.07	80.88	94.64	67.64	44.61	37.07	22.56	18.78	18.56	15.50	45.12

Source: International Monetary Fund, *International Financial Statistics*

Table 9: Mexico: Prices and Production, 1985-95

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
A. Period Average (1990 = 100)											
Industrial Share Prices	1.1	4 1	28.4	33.1	57.7	100 0	190 1	291 3	325.6	442 1	389.3
Wholesale Prices	7 6	14 3	33.6	69 8	81 1	100 0	120 5	136 7	148 8	158 9	221 1
Consumer Price Index	7 1	13 3	30.7	65 8	79.0	100 0	122.7	141 7	155.5	166 3	224 5
Wages· Monthly Earnings	6 6	11 5	27.0	57.3	76.6	100 0	129.1	151 7	164 7	174 6	192 1
Industrial Production	89 4	84 6	88.1	90.1	94.8	100 0	104.1	107 3	106 9	111 9	103 7
Manufacturing Production	88.2	84 0	87.2	89.4	95.1	100 0	103.9	106 7	104 5	109 5	102 2
Mining Production	96.6	92 6	96.1	96.6	96.1	100 0	100.6	101 5	102.6	104 2	104.2
Crude Petroleum Production	96.5	92 3	96.4	96 4	97.2	100 0	104 0	103 7	103.7	104 6	103.2
B. Annual Percentage Change											
Industrial Share Prices	77.8	258 3	594.8	16.6	74 4	73.2	90 1	53 2	11 8	35 8	-12 0
Wholesale Prices	53.6	88 4	135.6	107 8	16 1	23.3	20 5	13.4	8 9	6 8	39 1
Consumer Price Index	57.7	86 2	131.8	114.2	20 0	26.7	22 7	15 5	9 8	7 0	35 0
Wages: Monthly Earnings	59.6	75 7	134.2	112 2	33.7	30.5	29 1	17 5	8 6	6 0	10 0
Industrial Production	5 2	-5 3	4.1	2.3	5 1	5.5	4.1	3 1	-0 4	4 7	-7 3
Manufacturing Production	6 6	-4 8	3.9	2.4	6 4	5.1	3 9	2.7	-2 0	4 7	-6 7
Mining Production	0.9	-4.2	3.8	0.5	-0 5	4.1	0 6	0 9	1 1	1 6	0 0
Crude Petroleum Production	-1.2	-4 3	4.5	0.0	0 8	2.9	4 0	-0 3	0 0	0 8	-1 3

Source International Monetary Fund, *International Financial Statistics*