No. E.11

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Economic Department

MEXICO'S EXTERNAL PUBLIC DEBT, ECONOMIC AND FINANCIAL CAUSES OF DEBT AND DEBT ADJUSTMENT PLANS

Foreign Investments

Revised

PREPARED BY: James J. Lynch

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I. Historical Review

1. In the period between 1824 and 1913 Mexico issued some $375,-156,000 of U.S. dollar bonds, £90,972,000 sterling bonds and 280,275,-000 franc bonds. Since that time, new issues have been almost exclusively dollar obligations but have been greatly reduced in amount (see Table I). The total of all bond issues between 1824 and 1947 is estimated to be equivalent to around 1 billion U.S. dollars.

Table I

Foreign Sales of Mexican Bonds, By Periods
(000 omitted)

Years	Dollars	Sterling	Francs	Marks
1824-1913	375,156	90,972	280,275*	-
1914-1919	6,186	821		8,416
1920-1929	98,643	-		252
1930-1947	15,000	-		
	494,985	91,793	280,275*	8,668

*Issued to convert a sterling loan of 1899.

National and guaranteed issues have been increased by reason of the obligations issued under the 1922 Debt Plan for interest arrears. Such obligations totaled U.S. $17,421,362 as to the national issues and U.S. $12,715,037 as to the guaranteed issues. Further increases in the national obligations occurred in 1937 when the railroads were expropriated by the Mexican Government. American holdings in Mexican rails were principally direct investments and not portfolio in character until the Mexican Government took over control of the Mexican Central and the National Railroad Co. of Mexico and organized the National Railways of Mexico. With the shift in control, Americans, and other holders of the shares, received new Mexican bonds guaranteed by the Government in exchange for their interest in the roads formerly under American control.

2. Defaults occurred on the Mexican external debt from October, 1827 to April, 1831. Various adjustments were made between 1831 and 1864. In 1864, a 6% loan was issued and later converted in 1865, mostly into bonds of a Mexican Imperial Lottery loan. When, in 1867, the Imperial Government was overthrown, both loans were definitely repudiated by the Republic as having been contracted to oppose the constitutional government. The loans were paid only in part from some proceeds of certain funds held in Paris.

3. In July, 1914 the entire Federal debt went into default. A debt settlement was effected in 1922 and modified in 1925 and 1930, and again in 1931, but interest and amortization payments were limited to a small part of the requirements. Finally on March 2, 1943, a debt payment arrangement, dated November 5, 1942, modifying payments of principal and interest, was declared operative. Briefly, as a result of various debt adjustment plans, the bondholders receive about 20 cents on the dollar of principal and less than one cent on the dollar of back interest due on their securities.

4. The effect of the debt adjustment plan of 1942 was to settle the equivalent of U.S. $230,631,974 of principal amount of Mexican Government bonds for a new principal of U.S. $47,552,984. Back interest on this debt amounted to $278,884,248 and this was settled by issuing new bonds amounting to $2,061,713. Together interest and principal, amounting to $509,516,222, were settled for $49,614,697. In addition to the direct Government debt, there were also the obligations of the Mexican railroads which, as mentioned above, were expropriated by the Mexican Government in 1937. This debt was adjusted by the plan of 1946-1948. This plan was similar in effect to that shown above on the debt of the Government of Mexico. It called for a new principal amount of $48,064,409 for old par of $233,112,385. Back interest on these bonds, which amounted to $324,491,997, was settled for $2,445,221 of new bonds, bringing the total interest and amortization settlement on the $557,604,382 of railroad issues to a final amount of $50,509,630. In addition to the above, various settlements were made to take over oil properties and other unsettled claims against Mexico. (See I.B.R.D. Direct Investment study).

II. Causes of Default

1. All Mexican dollar bonds, including the entire Mexican railway debt, went into default in 1913-14. The immediate cause of default was the political and economic chaos which began in 1911 with the overthrow of the Diaz Regime. Chaos continued through the subsequent periods of revolutions and successive changes in government. There was little semblance of political stability until the Obregon Government was established in 1920 under a new constitution. This government was recognized in 1923 by the United States. However, sporadic revolutions continued, the most serious occurring in 1929 in which half of the Mexican states were included. Not until the Ortiz Rubio Government of 1930, and more particularly the Cardenas Government of 1934, was there a cessation of political turmoil in Mexico. Successive revolutionary governments indicated little feeling of responsibility for the foreign obligations of their predecessors. This attitude was strengthened by the anti-foreign bias which characterized many of the revolutionary factions.

2. The most immediate impact of the revolutionary situation upon Mexico's ability to meet foreign financial obligations was its effect upon precious metal production and exports. The importance of precious metals in the international relationship of Mexico at this time is incicated by the fact that in 1910-11 gold and silver accounted for almost 50% of Mexico's total exports - 143 million gold pesos. Under the Diaz

Regime, American capital had invested heavily in Mexican gold and silver production. Practically all the American mines closed as a result of the revolution. Of 110 American mining companies in Mexico studied by the Brookings Institute only 14 continued in operation from 1914 to the end of 1919. In 1920 exports of the precious metals had dropped to 104 million gold pesos, or around 20% of total exports.

3. In spite of this state of the gold and silver mining, the favorable balance of trade of Mexico 1/ was maintained by the expansion of exports of petroleum and petroleum products. Exports of petroleum and petroleum products increased from zero in 1910 to 145.5 million barrels in 1920 and constituted 66% of Mexico's total exports. Oil companies, by paying for protection, escaped the great destruction of property suffered by the mines during the revolution. As was the case with the mines, most of the oil wells were owned by British and American capital and much of the proceeds did not, therefore, return to Mexico.

4. This foreign control of Mexican oil was challenged by the Carranza Constitution of 1917, which provided for nationalization of subsoil resources, and by a 60% export tax levied by the Obregon Government on petroleum exports in 1920. As a result of these measures, plus the intrusion of salt water into the wells which became serious in 1922, many companies stopped further exploration and development of Mexican oil in the early twenties and began transferring investments elsewhere. By 1929, production had fallen almost to the 1916 level although world production was almost three times that of 1916. Petroleum products provided only 14.8% by value of Mexican exports in 1929.

5. Due to the progressive decline in petroleum exports, total exports and Mexico's trade surplus declined during the twenties. The decline was not proportionate to the drop in petroleum, however, because of expanded exports of metals, particularly copper, lead and zinc. These three metals rose from 295 million metric tons (or 17% of the value of exports) in 1923 to 718 metric tons (or 40% of the value of exports) in 1929.

6. As a result of the dependence of its commercial economy on raw material exports, Mexico was hard hit by the post-1929 world depression. Between 1929 and 1932 the value of exports fell by approximately 50%. Converted into 1929 pesos the value of exports had, by 1939, recovered to about the 1929 level. Other indications confirm the fact that there were no significant strides in economic development during the early thirties. The value of industrial production, adjusted for the depreciation of the peso, was at about the same level or even less in 1939 than in 1929. Furthermore, despite emphasis of the Cardenas Regime on agrarian reform and expanded agricultural output, farm pro-

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1/ Until 1940 Mexican statistics of exports of minerals were overvalued because they were entered at the market value of the metals in New York, including, therefore, refining costs and shipping and other charges.

duce only increased from 2.3 million metric tons in 1934 to 2.8 million in 1939.

7. Basically, Mexico's economic position at the beginning of World War II was still essentially semi-colonial in nature. Subsistence agriculture was still the predominant economic activity. The commercial sector of the economy was geared primarily to exports of raw materials, a substantial portion of which was one of the large items in the balance of payments. According to the official balance of payments of International Monetary Fund payments of investment income in 1938 amounted to $41 million, or 21% of all current account payments. During that year, according to a different source, seventy-one per cent of all exports from Mexico originated from foreign-controlled enterprises.

8. Government finance was also affected by the economic difficulties of the thirties. Because of the importance of the customs duties in the government income, government receipts were sharply curtailed by the decline in foreign trade. Budget accounts showed a deficit in 1930, 1932, 1933, 1937, 1938 and 1939. The internal debt rose from 71.5 million pesos in 1930 to 480 million pesos in 1940. The external debt also increased but this represented the accumulation of arrears of debt in default rather than new obligations.

9. Thus it is clear that from the time of defaults until 1940, neither economic nor political conditions were conducive to a resumption of payment on foreign obligations or a settlement of arrears. During the War, however, government income and financial conditions were greatly improved by expansion in many lines, including foreign trade, construction, development of new industries, and large public works expenditures. Despite the fact that note circulation increased more than four-fold, and deposits six-fold in the five year period ending December 31, 1945, the ratio of metallic reserves to note circulation and sight obligations of the Bank of Mexico was maintained well above the legal minimum of 25% of the currency issued and sight obligations of the Banco de Mexico. Total gold reserves increased from $27 million on December 31, 1939 to more than $292 million at the end of 1945. Short-term dollar assets of Mexico, including private holdings, at the end of 1939 amounted to $59 million, to $116 million at the end of 1945. By February, 1948 gold holdings stood at $86 million while dollar assets, including private holdings, rose to $132 million.

III. Adjustment of the External Debt of Mexico

1. In 1922, the Federal debt having been in default since 1914, a settlement between the government and the International Committee of Bankers was effected (it became law on the 29th of September). One year's payments - up to and including January 21, 1924 - were made under the 1922 agreement in April, 1924, but none in 1925 and in October of that year an agreement modifying that of 1922 was made. In this agreement certain adjustments pertaining to back interest, present and future interest and amortization payments were made.

2. The payments due in 1926 and 1927 under the Arrangement of 1925 were provided by the Mexican Government from January, 1926 to February, 1928 and were applied by the International Bankers' Committee to meet the cash warrants issued in respect to 1924 and 1925.

3. A third agreement readjusting debt payments was made between the Mexican Government and the International Committee of Bankers in July, 1930. This new scheme provided for scaling down and funding of direct debt in 5% bonds of a new issue. Interest on these bonds was to be paid at 3% gradually rising to 5%. An annuity was to be provided by the Mexican Government for the service of the direct debt and was to begin at $12.5 million in 1931 and gradually to increase to $15 million in 1936, at which figure it was to remain during the following forty-five-year period providing for the extension of both the direct and the railroad debt. This agreement was not ratified by the Mexican Congress.

4. Certain other arrangements were made in relation to the external debt but very little payment of interest or amortization took place during the entire thirties.

5. The various debt adjustment plans during the thirties had been only partially met or were completely defaulted on. Between 1922 and 1929 the International Committee of Bankers on Mexico's Debt had received from the Mexican Government and the National Railways of Mexico approximately $43 million, most of which was distributed to the bondholders. Finally, in 1943, the so-called Permanent Debt Adjustment Plans were agreed upon and are commonly referred to as the External Debt Settlement of 1942. It covered most of the external debt of Mexico other than the Railroad Debt, which was settled by the Railroad Debt Adjustment Plan of 1946-1948. Details of both of these plans are discussed below.

6. External Debt Settlement of 1942. In November 1942, the Mexican Government and the International Committee* reached an agreement providing for (1) the readjustment of the Mexican external debt structure under which the principal of the debt was reduced to Mexican pesos on the basis of 1 peso per U.S. $1 old face value, (2) the liquidation of interest arrears, and (3) the resumption of service payments on a modified basis. The Plan was ratified by the Mexican Congress and service payments to assenting bondholders were begun July 1, 1943.

7. The principal amount of the debt was reduced to Mexican pesos on the basis of 1 peso per U.S. $1 (sterling debt was converted into dollars at rate of $4.03). The redemption price of the debt, which was fixed in pesos and in dollars for the bonds covered in the agreement, is shown in the table below.

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* International Committee of Bankers on Mexico

Table II

Redemption and Interest Terms, Mexican Debt Settlement, 1942

	Original Par Value	Treatment of Principal: Redemption Value in Pesos	Treatment of Principal: Redemption Value in US $	Treatment of Interest: Annual Interest in Pesos	Treatment of Interest: Annual Interest in US $
A. Secured Debt					
Mexico 5s, 1899	£20	97.00	20.00	5.60	1.155
Mexico 4s, 1910	£20	97.00	20.00	4.50	0.93
Mexico 6s, 1913	£20	97.00	20.00	6.70	1.38
B. Unsecured Debt					
City of Mexico 5s, 1889	£100	403.00	83.093	13.90	2.86
Enc. Irrig. 4-1/2s, 1943	$100	100.00	20.619	3.10	0.64
Mexico 4s, 1904	$500	500.00	103.093	13.80	2.84
C. Internal & State Debt					
Mexico 3s, 1885	P25	5.154	1.062	0.08	0.016
Mexico 5s, 1895	P100	20.618	4.251	0.58	0.12
Vera Cruz 5s, 1927	P100	20.618	4.251	0.58	0.12
Vera Cruz 5s, 1907	P1000	206.185	42.513	5.80	1.20
Tamaulipas 5s, 1903	P100	20.618	4.251	0.58	0.12
Tamaulipas 5s, 1907	P100	20.618	4.251	0.58	0.12
Sinaloa 5s, 1907	P100	20.618	4.251	0.58	0.12
Tehuantepec Nat. Ry. 4-1/2s, 1953	£20	80.60	16.619	2.04	0.42
Tehuantepec Nat. Ry. 5s, 1953	£20	80.60	16.619	2.26	0.46

The terms with respect to interest were as follows:

(1) Current interest from January 1, 1943, to be paid semi-annually January and July 1 at the annual rates per bond as indicated in Table II.

(2) Unpaid coupons maturing on and after January 3, 1923, and prior to January 1, 1943, to be satisfied at holders' option through (a) immediate cash payment of 1% of face value of such coupons, in dollars, or alternatively in pesos at the fixed rate of 4.85 pesos to the dollar; or (b) by delivery of a receipt for such unpaid coupons entitling the holder to receive such payment of 1% on January 1, 1948, or the return of surrendered coupons if the Mexican Government in the intervening 5 years fails to make the payment called for by the Agreement.

(3) Interest falling due prior to January 3, 1923, to be paid immediately on the basis of 2/10ths of 1% in the case of Receipts for Interest in Arrears, Class A, or corresponding coupons on bonds not deposited under the 1922 Agreement.

8. Redemption of the new principal amount of the secured debt (3 issues - see A above) is to be completed on or before January 1, 1963, at the rate of 1 peso for each dollar of original face amount (sterling to be converted at $4.85 per pound). Beginning in 1948, Mexico would acquire a total of $5 million per annum of original face amount of assented secured bonds. Redemption of the new principal amount of the unsecured debt (12 issues) is to be completed on or before January 1, 1968, at the rate of 1 peso for each dollar of original face amount (original dollar face amount of sterling and peso bonds to be figured at $4.03 per pound and 4.85 pesos per dollar, respectively), but until all assenting secured bonds are redeemed, none of the unsecured issues would be redeemed.

9. Railroad Debt Adjustment Plan of 1946-48. On April 28, 1948 the Mexican Railway Debt Agreement, 1946, was opened for acceptance by the bondholders. Agreement for adjustment of the dollar and sterling debt of the National Railways of Mexico was announced March 19, 1946, by the Finance Minister of Mexico and the International Committee of Bankers on Mexico. On March 12, 1947, the Securities and Exchange Commission approved the Mexican Government's registration statement and, upon completion of other arrangements, bondholders were to be offered two options, "A" and "B".

Plan A provided for retirement of the bonds at approximately 20 cents for each dollar of principal amount, and payment of interest on such principal from January 1, 1946, at an average rate of 4.35%, specific rates varying with the several issues. Annual cumulative sinking fund of 1.78% was estimated as sufficient to retire the modified principal in 29 years.

Plan B required holders to waive interest from January 1, 1946, but the same amount of money per bond applied under Plan A would be used to retire bonds by purchase or redemption at prices rising gradually over a period of 29 years from over $21 for each $100 of nominal value to payment at par.

All payments on the bonds, at option of the holders, would be made either in dollars or in pesos at a fixed rate of exchange equivalent to 4.85 pesos per dollar.

The agreement also provided for payment of matured interest at the rate of 1% on interest amounts due after January 1, 1923, up to January 2, 1946; and 0.2% and 0.1% respectively, on Class A and B receipts issued under June 16, 1922 agreement representing interest due prior to January 2, 1923. Participation in any distributive share of funds in the hands of the 1922 committee would be waived in favor of the Mexican Government. (See Table IV for further details).

The result of the various debt adjustments and agreements plus loans are set forth below.

Table III

Mexico's External Public Obligations

	Totals of Original Issues in Original Currencies	Totals of Original Issues Converted into U.S. Dollars	Total U.S. Dollar Equivalent under 1942 and 1946-48 Debt Adjustment Plan
Government Debt (12/31/45):			
Issues in U.S. Dollars	58,914,600	58,914,600	
Issues in £ Sterling	30,094,320	142,935,014	
Issues in Pesos	139,594,450	28,782,360	
Total Principal	228,603,370	230,631,974	47,552,984 1/
Interest, 1914,1922 period	-	93,867,941	
Interest, 1923-1942 period	-	185,016,307	
Total Interest		278,884,248	2,061,714
Total, Principal and Interest	-	509,516,222	49,614,697
Railway Debt (12/31/45):			
Principal Outstanding		233,112,385	48,064,409
Interest, 1914-1922 period		92,582,486	126,126
Interest, 1923-1945 period		231,909,511	2,319,095
Total Interest		324,491,997	2,445,221
Total, Principal and Interest		557,604,382	50,509,630 2/
Other Debts:			
American Properties (Oil Settlement 1942)			1,000,000
Mexican-American claims (1/1/48)			19,000,000
Anglo-Dutch Oil Settlement (1/1/48)			106,800,000 3/
Export-Import Bank (6/30/48)			68,854,000 4/
I.B.R.D. Loans (1/10/49)			34,100,000
Private loans guaranteed by Mexico (Estimated)			15,000,000
Total Debts Outstanding			344,878,327 5/

Source: Government and Railroad Debts - Selected Economic Data on the Latin American Republics - P.A. Union, Washington, 1948.

1/ About 20% of this is enemy-owned and will not be recognized.

2/ About 10% of this is enemy-owned and will not be recognized.

3/ Of which about $25 million is interest from date of expropriation to date of first annual payment (9/18/48). Total payment $130 million.

4/ The undisbursed balance of loans authorized was $53,716,000. In calculating the service charges (Table IV) it was assumed that this amount was fully disbursed by June 30, 1949.

5/ Excludes U.S. Stabilization loan of $37 million and the International Monetary Fund loan of $22,500,000.

Mexican Federal Debt: After Adjustment

After adjustment, the Federal external debt of Mexico amounts to about $345 million (see Table III), and calls for service payments totaling $36 million in 1949. After rising to $39,400,000 in 1950, payments remain around $30 million until 1955 when they begin to decline rapidly. A large item of the debt payments is that arising out of the settlement for the expropriation of the Anglo-Dutch Oil properties in 1938. That settlement called for the payment of $81,250,000 plus 3% interest from the date of expropriation (March 18, 1938) to September 18, 1948 (amounting to $25,500,000) and 3% thereafter on the outstanding balance until the last installment is paid in 1962, the total amounting to $130 million. The payments are made in annual installments of $8,700,000. A balance of $19 million under the Mexican-American Claims Settlement was also outstanding at the beginning of 1948.

The debt to the United States Government is largely of recent origin - the loans from the Export-Import Bank and the Lend-Lease debt. While the amount of the latter is secret, it would be substantially less than the total of aid rendered which was $39,273,000. On June 30, 1948 the outstanding indebtedness to the Export-Import Bank was $68,854,000. The undisbursed balances of loans authorized were $53,716,000.

Table IV

Estimate of Service Requirements on External Debt of Mexico Made by I. B. R. D.

(in thousands of U.S. dollars)

Year	National Debt 1/	Railway Debt 1/	Export-Import Bank	Nacional* Financiera	U.S. Claims Convention	Oil Settlements	American Properties	IBRD Loan 3/	Total
1949	2,670	6,233 2/	13,556	1,350	2,500	8,700	204	1,085	36,298
1950	2,596	6,233 2/	16,966	1,147	2,500	8,700	210	1,084	39,436
1951	2,522	6,233 2/	14,604	1,138	2,500	8,700	216	1,085	36,998
1952	2,448	2,709	14,403	1,106	2,500	8,700	222	1,084	33,172
1953	2,374	2,709	14,066	525	2,500	8,700	228	1,869	32,971
1954	2,300	2,709	13,734	466	2,500	8,700		1,860	32,269
1955	2,226	2,709	13,245	454	1,500	8,700		1,853	30,687
1956	2,151	2,709	10,444	442		8,700		1,845	26,291
1957	2,077	2,709	8,065	430		8,700		1,835	23,816
1958	2,003	2,709	6,225	417		8,700		1,826	21,880
1959	1,929	2,709	3,883	204		8,700		1,817	19,242
1960	1,855	2,709	2,540			8,700		1,806	17,610
1961	1,781	2,709	2,470			8,700		1,796	17,456
1962	1,707	2,709	1,801			8,700		1,787	16,704
1963	1,633	2,709	1,161					1,775	7,278
1964	3,570	2,709	1,133					1,763	9,175
1965	3,524	2,709	1,106					1,752	9,091
1966	3,477	2,709	1,077					1,740	9,003
1967	3,431	2,709	817					1,729	8,686
1968	3,385	2,709	285					1,715	8,094
1969		2,709						1,700	4,409
1970		2,709						1,687	4,396
1971		2,709						1,673	4,382
1972		2,709						1,658	4,367
1973		2,709				[illegible]		1,642	4,351
1974		2,709							2,709
1975		2,709							2,709
1976		2,683							2,683

1/ Excludes funds for payment on bonds held by World War II enemies.

2/ Assumes assenting to debt readjustment plan 1949 through 1951 and payment of back interest plus payments for 1946, 1947 and 1948.

3/ There is also a $10,000,000 IBRD loan which may be drawn on before 12/1/49 and matures 12/31/49, interest at 4-1/2%. It is expected that this loan may be refunded into a 25-year loan, on which the annual service charges at 4-1/2% interest would be approximately $675,000.

*Guaranties

(Notes continued on next page)

Note:

These amortization payments are calculated on the basis of purchases of bonds for retirement at the par specified in the adjustment agreements. Retirements at a market price lower than par would provide some savings. For example, retirement at 16 instead of 20 would lessen the total payments close to $2 million each year. Since 30% of this debt is held internally, partly by the government, the above payments overstate actual costs. It was assumed that the undisbursed portions of Export-Import Bank loans would be fully utilized by June 30, 1949; also, that enemy-held Mexican Government and Railway bonds would not be serviced.

Service payments do not include dollar flexible charges due on the United States Stabilization and International Fund loans which, if paid from 1949-1954, would require an additional payment of approximately $10,000,000 per year during this period.

Debt Service and Balance of Payments

Mexico's foreign trade, including transactions in the precious metals, has normally been characterized by an excess of exports over imports. The exports were largely raw materials - minerals and petroleum. The imports were manufactured goods and, despite the large proportion of the population engaged in agriculture, foodstuffs.

Since 1944 imports have exceeded exports, and, notwithstanding attempts to limit imports, a balance has not been reached. A large part of this may be accounted for as deferred purchases of merchandise which could not be acquired during the war.

Data regarding the balance of international transactions of Mexico are not available for an historical study of trends. However, data recently prepared by the International Monetary Fund relate to 1938 as well as 1946 and 1947 and serve to point up some important changes that have taken place (see Table V). These data indicate that, in 1938, there were three principal items, net merchandise exports, net gold exports and net payments of income on foreign investments. The large payments of income on foreign investments - $41 million - reflected the large foreign stake in Mexico. In that year 71% of the exports from Mexico were produced on foreign-owned properties. All other items were very small, including known capital movements. It is probable, however, that capital movements were large because the expropriation of the railways in 1937 and the foreign oil properties in 1938 naturally caused foreign capital to leave the country.

In 1946 and 1947 there were several notable features of the balance of international transactions of Mexico. First, there was the change in merchandise trade to an excess of imports, amounting to about $230-250 million each year. Secondly, a new source of a substantial amount of income appeared - foreign travel - which averaged about $85 million net each year. Thirdly, the income from foreign direct investments in Mexico continued to be large ($51 million in 1947) notwithstanding the general unfavorable attitude toward private foreign capital. Interest on the Government debt amounted to only $2.7 million. A fourth feature was debt

amortization which amounted to about $20 million in 1947 as contrasted with $1,580,000 in 1938. Current transactions each year resulted in net payments by Mexico - $154 million in 1947. These net payments were made out of the proceeds of new private investments in Mexico, and increase in Mexican official and bank liabilities to foreigners, and sales of gold.

The current international transactions of Mexico at present are not in balance and the gold and foreign exchange reserves are not sufficient to last more than a year or two at the present rate of use. Gold production is only about $15 million a year - less than 10% of the estimated current account deficit in 1947 - and cannot be depended upon for much assistance.

Table V

Estimates of the Balance of Payments of Mexico
1938, 1946 and 1947

(in millions of U.S. dollars)

Net Credit or Debit (-)

Item	1938	1946	1947
Current Transactions:			
Merchandise	42.9	-232.2	-257.1
Nonmonetary gold movement (net)	37.6	1.0	21.1
Foreign travel	8.2	87.5	82.9
Transportation	-0.4	-3.7	-3.1
Insurance	-0.6	-1.6	-1.8
Investment income	-40.7	-42.1	-57.8
Direct investment		-36.2	-50.6
Other interest)			
Other equity)		-5.9	-7.2
Government, M.L.E.	2.1	8.7	9.0
Miscellaneous		-0.6	--
Donations	2.0	19.1	52.9
Total current transactions	51.1	-163.9	-153.9
Movement of Capital and Monetary Gold			
Private (excluding banking institutions)			
Long-term capital	-5.8	11.0	-15.8
Short-term capital		40.6	-6.0
Official and Banking Institutions			
Long-term capital	1.6	-14.0	90.7
Loans to official and banking institutions and from all sources	1.6	-35.6	-25.6
Amortization		15.1	19.8
Other		6.5	96.5
Short-term capital	2.9	-6.3	-126.7
Monetary gold	4.8	-113.3	-79.9
Total movement of capital and monetary gold	3.5	-82.0	-137.7
Errors and Omissions	-47.6	81.9	16.2

Source: International Monetary Fund, Second Revised Draft for 1948 Yearbook of Balance of Payments, Mexico 1938, 1946, 1947, December 1948.

The real solution must come from achieving at least a condition of balance in its trade account. To some extent this can be done through the limitation of imports of luxury goods, which have increased greatly since the War. Some of this may come about automatically when the accumulated needs of the War period are satisfied. Imports of capital goods have also increased greatly since the War. To some extent this may be a result of the same factor noted with respect to luxury articles - inability to satisfy requirements during the War. Also it is partly a result of the recent larger volume of new direct investment.

New direct investments must, in general, be looked upon as good because they will increase production and possibly help correct the trade balance. Mexico has extensive resources for new development which might not only provide needed exports but would supply the basis for further industrialization. These resources are being developed slowly by Mexican capital through Government stimulation and aid. They could be developed much more rapidly if foreign private capital were given real encouragement. At present, some capital is being invested there, primarily in manufacturing industries, leaving the primary industries lagging behind. The value of new private direct investments in Mexico was estimated at about $19 million in 1947. There was in addition an inflow of short-term funds.

Private foreign capital may be obtained on terms that will benefit Mexico as well as provide reasonable profits for the investors. It will be necessary, however, for the Government to correct the anti-foreign attitude. Many of Mexico's difficulties in the past have arisen from the unwillingness of private capital - domestic and foreign - to engage in any undertaking that required large capital outlays and from which income would be delayed several years. Instead, capital wanted a quick return of large profits so that in case of expropriation or excessive government competition the loss would be minimized. This has led to speculative investments in real estate, merchandising and some simple manufacturing. It has not been conducive to balanced industrialization.

Conclusion

Future service on Mexico's Government debt will be from $10-25 million larger 2/ than it was in 1947. If the international account were now in balance, this would not constitute any serious obstacle to additional loans. The ability of Mexico to balance its accounts remains to be proven and until that time the safety of additional loans is questionable; also, the debt record of Mexico and its anti-foreign attitude towards direct capital investments are strongly negative factors.

2/ The amount of increase depends on payments made on the U.S. Stabilization and International Monetary Fund loans.

Table VI

Outline of Amortization and Interest Under Railway Debt Adjustment

Issue	Outstanding Original Amount Thou. $	Original Denomination	Plan A Redemption Price (Per Bond) $	Plan A Annual Interest Payment (Per Bond) $	Plan B *Redemption Price per $1,000 1946 $	1947 $	1948 $	1949 $	Plan B +Cumulative % of Bonds To Be Retired (Based on original par value) 1946 $	1947 $	1948 $	1949 $
CLASS "A"												
Nat'l R.R. 4-1/2s, 1926	23,000	$ 500	103.093	5.498	217.10	228.70	240.80	253.60	6.69	13.03	19.06	24.79
Mex. Cent'l Ry. 5s, 1939	1,374	$1,000	206.186	10.182								
CLASS "B"												
Nat'l Rys. 4-1/2s, 1957	84,804	$ 100	20.619	0.8704								
Mex. Cent'l Ry. 5% Eqp. Bds.												
(A) 1st Ser., 1897	150	$1,000	206.186	10.182								
(B) 2nd Ser., 1899	300	$1,000	206.186	10.182								
(D) Ser. No. 10, 1907	342	$1,000	206.186	10.182	215.40	225.00	235.00	245.60	6.02	11.79	17.31	22.59
Nat'l Rys. 6% Notes, 1913	746	$1,000	206.186	10.996								
Nat'l Rys. 6% Notes:												
(A) 2-yr. due 6-1-1915	4,983	$1,000	206.186	10.996								
(A) 2-yr., 1915 (stg.)	16,370	£ 100	83.093	4.43								
(B) 2-yr., 1916	1,403	$25,000	5154.639	274.932								
CLASS "C"												
Nat'l Rys. 4s, 1977	50,749	$ 100	20.619	0.8144								
Vera Cruz. & Pac. 4-1/2s, 1934	7,000	$1,000	206.186	9.164	214.40	223.00	231.90	241.10	5.67	11.12	16.36	21.40
Nat'l R.R. 4s, 1951	24,740	$ 500	103.093	4.072								
CLASS "D"												
Mex. Intern. R.R. 4-1/2s, 1947	4,836	£ 100	83.093	3.138								
Mex. Intern. R.R. 4s, 1977	4,207	$ 500	103.093	3.461								
Pan. Am. R.R. 5s, 1934	2,003	$1,000	206.186	7.636								
Pan. Am. R.R. 5s, 1937	1,484	$1,000	206.186	6.618								
Nat'l Rys. 6% Notes:					214.30	222.80	231.60	240.70	4.81	9.44	13.90	18.18
(A) Ser. B, 1914	1,510	$ 2	0.412	0.02								
(C) 3-yr., 1914	2,460	$ 45	9.278	0.466								
(D) Ser. C, 1914	161	$ 15	3.093	0.154								
(D) Ser. C, 1914 (stg.)	491	£ 3	2.493	0.124								
Total	233,112											

Table VI - Continued

Notes:

* Price increases each year until 1974, by which time price will be $1,000 and all bonds will be retired.

+ Represents maximum per cent of each issue within a given class to be retired by the end of each year until 1974.