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TELELETTER NO 55

FROM SIR CRISPIN TICKELL, MEXICO CITY

FILE REFERENCE 092/1 OF 10 AUGUST 1983

FOLLOWING FOR B O WHITE ESQ, MCAD, FCO
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BANK OF MEXICO VIEW OF MEXICAN ECONOMY

1. I TOOK SIR ALFRED SHERMAN TO CALL ON THE DEPUTY DIRECTOR GENERAL AT THE BANK OF MEXICO THIS MORNING. WE HAD A DISCUSSION ABOUT THE STATE OF THE MEXICAN ECONOMY.
2. GHIGLIAZZA SAID THAT THE RISE IN THE US PRIME RATE WAS OBVIOUSLY UNWELCOME. BUT PROVIDED IT DID NOT GO ANY HIGHER AND DID NOT LAST TOO LONG, IT SHOULD BE MANAGEABLE. HE ADDED THAT WHEN THE MEXICANS HAD DONE THEIR CALCULATIONS FOR THE IMF LAST YEAR THEY HAD WORKED ON THE BASIS OF A CONSIDERABLY HIGHER US PRIME RATE. THE WAY IN WHICH THE MEXICAN PERFORMANCE HAD SINCE EXCEEDED EXPECTATIONS WAS PARTLY DUE TO THIS. BUT LIKE EVERYBODY ELSE THE MEXICANS HOPED THAT THE US PRIME RATE WOULD COME DOWN IN THE AUTUMN, PROBABLY NOVEMBER.
3. GHIGLIAZZA SAID THAT THINGS WERE GENERALLY LOOKING BETTER. THERE WAS NOW ALMOST TOO MUCH LIQUIDITY, BOTH IN PESOS AND DOLLARS, IN THE MEXICAN SYSTEM, AND THERE WERE THOSE WHO WERE URGING THE GOVERNMENT TO BRING DOWN INTEREST RATES. THE BANK OF MEXICO BELIEVED THAT THIS WOULD BE WRONG IN PRESENT CIRCUMSTANCES AND BELIEVED THAT PRESIDENT DE LA HARPE SHARED THIS

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4. WHEN ASKED WHY, IF THERE WAS SURPLUS LIQUIDITY IN THE SYSTEM, MEXICO DID NOT ACCELERATE ITS PAYMENT OF FOREIGN DEBTS, GHIGLIAZZA SAID THAT THE BANK'S FIRST PRIORITY WAS TO BUILD UP THE RESERVES, WHICH HAD FALLEN TO ZERO DURING THE CRISIS LAST YEAR. THE DAMAGE DONE TO THE ECONOMY HAD BEEN VERY GREAT, AND THE GOVERNMENT WANTED TO PROCEED STEADILY AND IN PUNCTILIOUS RESPECT FOR THE COMMITMENTS INTO WHICH IT HAD ENTERED.

5. ON EXCHANGE RATE POLICY, GHIGLIAZZA SAID THAT THE AUTHORITIES WOULD ACT WITH FLEXIBILITY. IF IT WAS NECESSARY TO INCREASE THE CURRENT DAILY SLIPPAGE IN THE CONTROLLED RATE, THEY WOULD DO SO. THEY WOULD ALSO BE READY TO MOVE THE SO-CALLED FREE RATE. AT PRESENT THE PRESSURE ON THE FREE RATE WAS IF ANYTHING THE OTHER WAY. HE REMARKED THAT AUGUST WAS USUALLY A BAD MONTH FOR THE MEXICAN ECONOMY AS SPECULATORS HEDGED THEIR BETS ON THE PRESIDENT'S ANNUAL STATE OF THE NATION ADDRESS ON 1 SEPTEMBER: BUT SO FAR THE IN-FLOW OF DOLLARS HAD CONTINUED, SOME DAYS MORE, SOME DAYS LESS. HE DID NOT EXPECT THE CONTROLLED AND FREE RATES TO CONVERGE FOR SOME TIME. THIS WOULD ONLY BECOME POSSIBLE WHEN INFLATION HAD BEEN BROUGHT FULLY UNDER CONTROL, AND ARRANGEMENTS FOR PAYMENT OF MEXICO'S PRIVATE SECTOR DEBTS WERE COMPLETE.

6. PLEASE DISTRIBUTE FURTHER AS REQUIRED.

SIGNED: CRISPIN TICKELL

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