

Miss Harrison to see

(Given a monetary distribution  
from MCAO)

C314/1518.

OT

WONFO 009/13

TT FCO

GRS 650

RESTRICTED

TELELETTER NO 56

FROM SIR CRISPIN TICKELL, MEXICO CITY

FILE REFERENCE O92/1 OF 12 AUGUST 1983

FOLLOWING FOR B O WHITE ESQ, MCAD, FCO  
COPIED TO WASHINGTON AND UKDEL IMF/IBRD WASHINGTON

MINISTRY OF FINANCE VIEW OF MEXICAN ECONOMY

1. IN MY TELELETTER NO 55 I GAVE YOU A BANK OF MEXICO VIEW ON RECENT DEVELOPMENTS IN THE MEXICAN ECONOMY. ON 11 AUGUST I TOOK SIR ALFRED SHERMAN TO CALL ON FRANCIS SUAREZ (DEPUTY MINISTER OF FINANCE) FOR A DISCUSSION ON THE SAME THEME. YOU MIGHT CARE TO HAVE A NOTE OF THE MAIN POINTS.
2. WE DISCUSSED THE RECENT RISE IN THE US PRIME RATE. LIKE GHIGLIAZZA (BANK OF MEXICO) SUAREZ SAID THAT THE RISE WAS MANAGEABLE. HE REPEATED GHIGLIAZZA'S POINT THAT THE MEXICANS HAD MADE THEIR CALCULATIONS FOR THE IMF ON THE BASIS OF A STILL HIGHER RATE, BUT HE ADDED THAT THE MEXICAN EXTERNAL FINANCIAL POSITION WAS NOW STRONG, AND THAT INTERNATIONAL OIL PRICES WERE NOW FIRMER. BUT HE HOPED VERY MUCH THAT THE US PRIME RATE WOULD COME DOWN BEFORE THE END OF THE YEAR. THE REST OF THE WORLD WAS OF COURSE SUFFERING FROM THE SIZE OF THE US BUDGET DEFICIT.
3. WE ASKED ABOUT RECENT REPORTS FROM PARIS THAT SOME LATIN AMERICAN GOVERNMENTS WERE LOOKING AGAIN AT THE IDEA OF A DEBT MORATORIUM. SUAREZ LAUGHED, AND SAID THAT WE HAD ALL HEARD THIS MANY TIMES BEFORE. THE MEXICANS WOULD HAVE NOTHING TO DO WITH SUCH A MORATORIUM. WHEN ASKED WHAT THE MEXICAN POSITION MIGHT BE IF OTHER COUNTRIES ENTERED INTO A MORATORIUM, SUAREZ REPLIED THAT IT WOULD NOT CHANGE.
4. SUAREZ SAID THAT MEXICAN DRAWINGS ON THE CREDITS AVAILABLE TO THEM HAD SO FAR BEEN LESS THAN EXPECTED. FOR EXAMPLE THE PUBLIC SECTOR DEBT HAD INCREASED BY ONLY US DOLLARS 820 MILLION IN THE PERIOD JANUARY TO JUNE 1983. IT WOULD PROBABLY NOW BE GOING UP SOME MORE TO DEAL WITH LAST YEAR'S BIS LOAN. BUT HE DOUBTED IF THE MEXICANS WOULD NEED TO DRAW MORE THAN US DOLLARS



REPLIED THAT IT WOULD NOT CHANGE.

4. SUAREZ SAID THAT MEXICAN DRAWINGS ON THE CREDITS AVAILABLE TO THEM HAD SO FAR BEEN LESS THAN EXPECTED. FOR EXAMPLE THE PUBLIC SECTOR DEBT HAD INCREASED BY ONLY US DOLLARS 820 MILLION IN THE PERIOD JANUARY TO JUNE 1983. IT WOULD PROBABLY NOW BE GOING UP SOME MORE TO DEAL WITH LAST YEAR'S BIS LOAN. BUT HE DOUBTED IF THE MEXICANS WOULD NEED TO DRAW MORE THAN US DOLLARS 3 BILLION OUT OF THE MORE THAN US DOLLARS 5 BILLION AVAILABLE. HE ADDED THAT MEXICO NOW HAD A SUBSTANTIAL SURPLUS ON CURRENT ACCOUNT, BUT THIS WOULD PROBABLY NOT CONTINUE AS ESSENTIAL IMPORTS ROSE. UNLIKE BRAZIL MEXICO HAD A SOLID EXPORT BASE IN ITS OIL EXPORTS, AND OTHER EXPORTS WERE IN A SENSE A BONUS. BUT THE GOVERNMENT WOULD CONTINUE TO DO ALL IT COULD TO BOOST EXPORTS GENERALLY.

5. SUAREZ SAID THAT WITHIN THE MEXICAN ECONOMY DEMAND CONTINUED LOW. LIKE GHIGLIAZZA HE SAID THERE WAS NOW ALMOST TOO MUCH LIQUIDITY. SOME OF THIS WAS BEING MOPPED UP BY THE ISSUE OF THREE MONTH TREASURY BONDS (CETES). UNFORTUNATELY BOTH BANKS AND PRIVATE INVESTORS HAD SUCH AN APPETITE FOR THESE BONDS THAT NOT ENOUGH MONEY WAS GOING FROM THE BANKS TO THE PRIVATE SECTOR. INTEREST RATES HAD GONE DOWN A LITTLE, BUT THE GOVERNMENT WAS DETERMINED TO ENSURE POSITIVE RATE OF RETURN IN TERMS OF INFLATION. IN THESE CIRCUMSTANCES THE GOVERNMENT WAS CONSIDERING LOWERING THE BANKS' LIQUIDITY REQUIREMENTS IN ORDER TO GET THEM TO LEND MORE TO THE PRIVATE SECTOR.

6. WHEN ASKED IF ANY OF THE MONEY MEXICANS HAD INVESTED ABROAD DURING THE CRISIS LAST YEAR WAS NOW COMING BACK, SUAREZ SAID THAT RELATIVELY LITTLE HAD RETURNED THROUGH THE BANKS, BUT THE AUTHORITIES SUSPECTED THAT MORE HAD RETURNED THROUGH THE STOCK EXCHANGE. THE REASON WAS THAT MANY INVESTORS FEARED THAT IF THEY CHANNELLED THEIR MONEY THROUGH THE NATIONALIZED BANKS THE TAX AUTHORITIES WOULD COME TO HEAR OF IT. SO INSTEAD THEY WERE OPERATING THROUGH THE STOCK EXCHANGE AND THROUGH IT BUYING BOTH TREASURY BONDS AND INDUSTRIAL SHARES.

7. SUAREZ SAID THAT IN GENERAL THINGS WERE MUCH BETTER. NO-ONE KNEW WHETHER THE PRESENT RELATIVE SOCIAL PEACE WOULD CONTINUE BUT IT WAS A REASONABLE HOPE THAT IT WOULD. MANY OF THE DISASTERS WHICH HAD BEEN PREDICTED HAD NOT TAKEN PLACE. AN IMPORTANT POINT WAS THAT ALTHOUGH UNEMPLOYMENT WAS RISING AS MORE LABOUR CAME ON TO THE MARKET, EMPLOYMENT ITSELF WAS STEADY; AND IN DIFFERENT PARTS OF THE ECONOMY THERE WERE ALREADY SIGNS OF ECONOMIC RECOVERY.

8. PLEASE DISTRIBUTE FURTHER AS NECESSARY.

SIGNED: CRISPIN TICKELL

NNNN