

Prime Minister

Mexico

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23/8

GRS 520

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FM MEXICO CITY 20 2300Z AUG 82

TO PRIORITY FCO

TELEGRAM NUMBER 683 OF 20 AUGUST

INFO PRIORITY TREASURY, ECGD, BANK OF ENGLAND, DOT

INFO ROUTINE WASHINGTON

MY TELNO 680: MEXICAN ECONOMY

1. THE PESO GAINED CONSIDERABLE GROUND ON 20 AUGUST, CLOSING AT 90 TO THE DOLLAR. BANKS ARE, HOWEVER, ONLY HANDLING THE SIMPLEST TRANSACTIONS BECAUSE THEY ARE STILL NOT CONFIDENT ENOUGH OF THE WAY THE NEW REGULATIONS WORK TO CASH BANKERS DRAFTS ETC.
2. BUSINESS LEADERS HAVE GENERALLY WELCOMED THE FINANCE MINISTER'S LATEST MEASURES (MY TELNO 678) AND THERE HAS BEEN SOME SUPPORT FROM THE OFFICIAL TRADE UNION MOVEMENT. THE LATTER HAVE MENTIONED THE NEED FOR THE WORKERS PURCHASING POWER TO BE DEFENDED BUT SO FAR ONLY IN A LOW KEY. THE OPPOSITION, BOTH RIGHT AND LEFT, HAVE SHARPLY CRITICISED THE DECISION TO APPLY TO THE IMF. BUT PUBLIC OPINION SEEMS TO ACCEPT THAT MATTERS HAVE REACHED SUCH A PASS THAT HELP MUST BE SOUGHT WHEREVER IT CAN BE FOUND.
3. CONFIDENCE WILL BE DIFFICULT TO RESTORE. THE CONTROLS IMPOSED ON MEXDOLLAR ACCOUNTS WAS PROBABLY THE BIGGEST BLOW AND CAUSED GREAT RESENTMENT. THE COUNTRY IS STILL RIFE WITH RUMOURS, OF EVEN MORE DRACONIAN FINANCIAL RESTRICTIONS AND DRAMATIC POLITICAL EVENTS. THE RUMOUR-MONGERS HAD PRESIDENT LOPEZ PORTILLO SHOT TWICE LAST WEEK AND PRESIDENT-ELECT DE LA MADRID ON 15 AUGUST. THE STORIES ABOUT A MILITARY COUP, PERSISTENT ALL YEAR LONG, HAVE INEVITABLY INCREASED AS THE PRESTIGE OF THE PRESENT ADMINISTRATION AND THE SYSTEM ITSELF HAVE DROPPED. SOME TROOPS HAVE BEEN MOVED INTO MEXICO CITY, GUADALAJARA AND MONTERREY. THE ARMY HAVE TOLD FOREIGN ATTACHES THAT THIS FORMS PART OF THE PREPARATIONS FOR THE INDEPENDENCE CELEBRATIONS ON 16 SEPTEMBER. NOBODY BELIEVES THIS VERSION. THE MOVE IS PROBABLY A PRECAUTION AGAINST CIVIL UNREST. IN FACT THERE HAS SO FAR BEEN NO SIGN OF PUBLIC DISTURBANCES. THE AVERAGE MEXICAN IS PROBABLY TOO BUSY TRYING TO COPE WITH A RAPIDLY DETERIORATING ECONOMIC SITUATION TO BE IN THE MOOD TO TAKE TO THE STREETS. OUTWARDLY EVERYTHING IS NORMAL AND THERE IS NONE OF THE VIOLENCE WHICH MARKED THE LAST MONTHS OF PRESIDENT ECHEVERRIA'S PRESIDENCY. IT IS ONLY IN THE TOWNS ON THE US BORDER THAT THE RETAIL TRADE HAS BEEN SERIOUSLY DISRUPTED BY THE FALL OF THE PESO AND THE CLOSE OF THE EXCHANGE MARKETS.

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4. THE LOSS OF CONFIDENCE IN PRESIDENT LOPEZ PORTILLO IS ALMOST TOTAL. NEWSPAPERS ARE NOW EVEN PREPARED TO MENTION MEMBERS OF HIS FAMILY IN CONNECTION WITH LARGE TRANSFERS OF FUNDS TO THE UNITED STATES. BUT PARTICULARLY AFTER HE HAS DELIVERED HIS LAST STATE OF THE UNION ADDRESS ON 1 SEPTEMBER, ALL EYES WILL BE ON THE NEW ADMINISTRATION DUE TO TAKE OFFICE ON 1 DECEMBER. THE FINANCE MINISTER IS ACTING INCREASINGLY AS IF HE WERE IN SOLE CHARGE OF THE ECONOMY. SILVA HERZOG'S REPUTATION AND THAT OF PRESIDENT ELECT DE LA MADRID ARE UNBLEMISHED AND THERE IS CONSIDERABLE PUBLIC HOPE AND EXPECTATION THAT THE NEXT ADMINISTRATION WILL MANAGE THE ECONOMY BETTER AND ALSO REDUCE THE CURRENT LEVEL OF CORRUTION. IF THE GOVERNMENT, BACKED BY THE IMF, IS SEEN TO BE REGAINING CONTROL OF THE ECONOMY OVER THE NEXT FEW WEEKS, THE POLITICAL FACTORS SHOULD ALSO WORK IN FAVOUR OF A RECOVERY OF CONFIDENCE AS THE DE LA MADRID ERA APPROACHES.

TICKELL

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(REPEATED AS REQUESTED)

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THIS TELEGRAM
WAS NOT
ADVANCED

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