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*Release to  
your meeting  
de la Madrid.*

FM MEXICO CITY 072250Z 1985

TO IMMEDIATE FCO

TELEGRAM NUMBER 675 OF 7 JUNE

AND TO IMMEDIATE DTI (OWEN OT4/2), ECGD (MISS HARDING), HMT (MRS CASE),

BANK OF ENGLAND (PORTER)

MEXICAN ECONOMY

1. I CALLED ON FRANCISCO SUAREZ, ACTING FINANCE MINISTER, ON 6 JUNE TO SEEK CLARIFICATION OF THE MEXICAN GOVERNMENT'S DECISION ON THE FUTURE OF THE SICARTSA PROJECT, ON WHICH PLEASE SEE OUR OTTER 240. AT THE SAME TIME, SUAREZ GAVE ME AN UPBEAT ASSESSMENT OF THE MEXICAN ECONOMY, BASED ON CERTAIN CURRENT FAVOURABLE INDICATORS, WHICH YOU MAY LIKE TO TAKE INTO ACCOUNT ON THE EVE OF THE STATE VISIT.

2. SUAREZ HAD JUST COME FROM A MEETING WITH KEY REPRESENTATIVES OF MEXICAN COMMERCE AND INDUSTRY AT WHICH HE AND THE ACTING MINISTER FOR TRADE AND INDUSTRIAL DEVELOPMENT HAD BEEN EXPLAINING THE GOVERNMENT'S REVISED EXPORT PROGRAMME (DIMEX) WHICH ALLOWS EXPORTERS CERTAIN IMPORTANT CONCESSIONS ON IMPORTS. THIS MEASURE, WHICH DOMESTIC PRODUCERS HAD SUCCESSFULLY RESISTED IN ITS ORIGINAL FORM, MAY GIVE A BADLY NEEDED BOOST TO NON-OIL EXPORTS AS WELL AS OPENING UP THE DOMESTIC MARKET TO MORE COMPETITION.

3. THE JUST AVAILABLE INFLATION FIGURE FOR MAY, SUAREZ TOLD ME, WAS 2.4 PER CENT (THIS HAS SINCE BEEN OFFICIALLY ANNOUNCED). SUAREZ SAID THAT THIS WAS THE LOWEST FIGURE FOR ONE MONTH SINCE THE PRESENT ADMINISTRATION TOOK OFFICE IN DECEMBER 1982 (IN FACT IT IS THE LOWEST SINCE NOVEMBER 1981). THE ACCUMULATED RATE OF INFLATION FOR JANUARY-MAY 1985 IS NOW 22.6 PER CENT. SUAREZ THOUGHT THAT THERE WAS STILL A CHANCE OF THE GOVERNMENT'S ACHIEVING A WORTHWHILE REDUCTION IN THE YEAR END INFLATION RATE. THIS WAS THE MORE LIKELY NOW THAT A NON INFLATIONARY MINIMUM WAGE SETTLEMENT HAD BEEN AGREED (OUR TELEGRAM NO 639). ALSO A FURTHER ROUND OF PUBLIC EXPENDITURE CUTS TOTALLING ONE BILLION US DOLLARS WHICH WOULD HELP. EMPLOYMENT WAS ALSO PICKING UP SATISFACTORILY.

4 I ASKED SUAREZ ABOUT THE OVER-VALUATION OF THE PESO WHICH WAS HAVING AN ADVERSE EFFECT ON MEXICO'S EXPORTS. THE UNOFFICIAL PARALLEL RATE FOR THE PESO WENT UP TO AROUND 300 PESOS TO THE DOLLAR AT THE END OF LAST WEEK. IT HAS NOW DROPPED BACK TO 270. SUAREZ SAID HE HAD NO EASY EXPLANATION FOR THE MOVEMENT IN THE VALUE OF THE PESO, BUT HE DREW MY ATTENTION, TO SILVA HERZOG'S STATEMENT ON 4 JUNE PRIOR TO HIS DEPARTURE WITH THE PRESIDENT, TO THE EFFECT THAT THERE WOULD BE NO ABRUPT CHANGE IN THE EXCHANGE RATE. THIS HAS BEEN INTERPRETED AS RULING OUT BOTH A FURTHER ADJUSTMENT FOR THE TIME BEING IN THE SLIPPAGE RATE OF THE PESO AND A STRAIGHT DEVALUATION. HOWEVER, SUAREZ ACCEPTED THAT THE SLIPPAGE RATE WOULD HAVE TO BE WATCHED CLOSELY, PARTICULARLY IN THE LIGHT OF WHAT HAPPENS ON OIL PRICES. (ON WHICH LABASTIDA, MINISTER FOR ENERGY, HAS BEEN CONSULTING WITH THE PRESIDENT IN MADRID).

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5. THERE ARE OTHER LESS FAVOURABLE FEATURES OF THE ECONOMY, PARTICULARLY THE BALANCE OF PAYMENTS PROSPECTS FOR 1985, WHICH I DID NOT TOUCH ON WITH SUAREZ. HIS OPTIMISM ABOUT SOME OF THE CURRENT ECONOMIC INDICATORS IS IMPORTANT BUT THE JIC'S RECENT ASSESSMENT OF THE ECONOMY IS STILL VALID (OUR TELEGRAM NO 607).

6. PLEASE PASS COPY TO SIR KENNETH JAMES, C/O HEADS OF MISSION SECTION.

MILTON

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COPIES TO .  
MR. OWEN - OT4/2 DTI  
MISS HARDING - ECGD.  
MRS CASE - H.M.T.  
MR. PORTER B/E.  
SIR. K JAMES - C/O HOM  
SEC.

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