

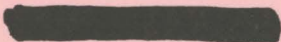
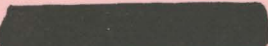

The original documents are located in Box B80, folder “Mexico 4/76 - 10/77 (4)” of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.

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NATIONAL ARCHIVES AND RECORDS SERVICE

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
1. telegram	Donald Syvrud to Undersecretary Yeo, Sam Cross, and F.L. Wilman, Mexico City 38268, re Mexico's External Debt and U.S. Bank Exposure (2 pp.)	11/2/76 <i>DECLASSIFIED ut 5/96</i>	A
2. telegram	Donald Syvrud to Treasury Dept., Mexico City 38255, re Mexican Foreign Exchange Developments in 1976 (5 pp.)	11/1/76 <i>DECLASSIFIED ut 5/96</i>	A
3. telegram	Donald Syvrud to Undersecretary Yeo, Sam Cross, and F.L. Widman, Mexico City 38264, re Mexican Foreign Exchange Developments in 1976 (20 pp.)	11/1/76 <i>DECLASSIFIED ut 5/96</i>	A
4. memo case, Collins to Burns, 11/3/76			
4a. memo	J. Foster Collins, Treas. Dept. to Burns re reports on Mexico (1 p.) <i>sanitized 10/17/97</i>	11/3/76	C(A)
4b. telegram	American Embassy Mexico to Sec. of State, Mexico 13678, re Lopez-Portillo meeting with U.S. businessmen (3 pp.) <i>DECLASSIFIED 7/25/07 dal</i>	10/27/76	A
4c. telegram	American Embassy Mexico to S. c. of State, Mexico 13748, re re-pegging of peso (2 pp.) <i>DECLASSIFIED 7/25/07 dal</i>	10/28/76	A
4d. telegram	American Embassy Mexico to Sec. of State, Mexico 13923, re possible revision of IMF program for Mexico (2 pp.) <i>DECLASSIFIED 7/25/07 dal</i>	11/1/76	A
4e. memo	re Mexican Economic Situation (2 pp.)	10/30/76	A
4f. telegram	 (7 pp.)	10/26/76	A
4g. telegram	American Embassy Mexico to Sec. of State Mexico 13934, re Mexican economic & political developments. (4 pp.) <i>DECLASSIFIED 2/12/15</i>	11/2/76	A
4h. telegram	 (4 pp.)	10/27/76	A
4i. telegram	 (8 pp.)	10/27/76	A
4j. telegram	excerpt from State Dept. telegram, #5585, re Mexico (1 p.) <i>DECLASSIFIED 2/24/95 KBH</i>	c. 10/28/76	A

FILE LOCATION
 Arthur Burns Papers
 Federal Reserve Board Subject File, Box B80
 Mexico, Nov. 1-3, 1976

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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
4k. memo	William Morell, Jr. to Secretary Simon re Mexico (2 pp.) <i>DECLASSIFIED</i> <i>lt 5/96</i>	11/3/76	A
<u>5. memo case, Truman to Burns, 11/3/76</u>			
5a. telegram	American Embassy Mexico to Sec. of State, Mexico 13923, re possible revision of IMF program (2 pp.)	11/1/76	A
5b. telegram	American Embassy Mexico to Sec. of State, Mexico 13924, re Ambassador Dent's visit to Mexico (2 pp.)	11/1/76	C(A)
5c. telegram	American Embassy Mexico to Sec. of State, Mexico 13934, re economic and political developments in Mexico (4 pp.)	11/2/76	A
<u>6. memo case, Wallich to Burns, 11/3/76</u>			
6a. memo	Edwin Truman to Burns re status of Mexico's applications for drawings from the IMF (2 pp.) <i>opened 4/22/96 KBH</i>	10/2/76	C(A)

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FILE LOCATION

Arthur Burns Papers
Federal Reserve Board Subject File, Box B80
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SR
8/14/84

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CITE MEXICO CITY 38268

TO: IMMEDIATE DIRECTOR.

TEXT FOLLOWS OF MR. DONALD SYVRUD 2 NOVEMBER MESSAGE FOR
TREASURY UNDERSECRETARY YEO, SAM CROSS AND F.L. WILMAN:

"CONFIDENTIAL NODIS

TO: UNDER SECRETARY YEO, SAM CROSS, F.L. WIDMAN

FROM: D. SYVRUD

SUBJECT: MEXICO'S EXTERNAL DEBT AND US BANK EXPOSURE

1. OUR BEST ESTIMATES OF MEXICO'S END OCTOBER EXTERNAL DEBT,
PUBLIC AND PRIVATE, IS \$25.3 BILLION WITH A PROJECTED FURTHER
INCREASE TO \$25.9 BILLION BY THE END OF 1976. THE FOLLOWING
TABLE GIVES A BREAKDOWN OF PUBLIC AND PRIVATE, SHORT AND
LONG TERM ESTIMATES AND OUR SOURCES.

2. BANK OF MEXICO OFFICIALS ESTIMATE THAT US PRIVATE BANKS
HOLD AN AVERAGE OF 70 PERCENT OF THE TOTAL DEBT, WITH SHORT
TERM DEBT ALMOST ENTIRELY HELD BY US BANKS. ON OTHER HAND,
FEDERAL RESERVE DATA FOR MARCH 1976 SHOWED US BANK EXPOSURE
AT \$10.5 BILLION, WHICH ABOUT HALF TOTAL ESTIMATED DEBT AT
THAT TIME. ACTUAL US BANK EXPOSURE PROBABLY LIES SOMEWHERE
BETWEEN THESE TWO EXTREMES, BUT CLOSER TO LOWER LEVEL.
BOM OFFICIALS SAY THAT US BANKS CHANNEL CREDITS THROUGH
ENTREPOTS WHICH ARE NOT INCLUDED IN FED DATA.

17, 8

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NR95-a, #6; Treasury Lt. 3/7/96

By Ut NARA, Date 5/3/96



PAGE 2 MEXICO CITY 38268 ~~SECRET~~
EXTERNAL DEBT

MEXICO'S EXTERNAL DEBT
(BILLIONS OF U.S. DOLLARS)

	DEC 1975	JUNE 1976	DEC 1976
PUBLIC SECTOR	14.8	17.0	19.3
SHORT TERM	2.7	3.2	3.3
LONG-TERM	12.1	13.8	16.0
PRIVATE SECTOR	NA	6.6	6.6
SHORT TERM	NA	2.7	2.7
LONG TERM	NA	3.9	3.9
TOTAL EXTERNAL DEBT	NA	23.6	25.9

SOURCES IMF SM 76/200, TABLES XXI AND XVIII FOR DECEMBER 1975 AND JUNE 1976 PUBLIC SECTOR DATA. BOM ESTIMATES FOR JUNE 1976 PRIVATE SECTOR DATA (SEE NOTES OF TABLE 5 OF PREVIOUS TELEGRAM). ALL DECEMBER 1976 DATA ARE BASED ON ASSUMPTIONS AND PROJECTIONS IN BALANCE OF PAYMENTS DATA IN TABLE 5 OF PREVIOUS CABLE.

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1 NOVEMBER 76

RECIEVE 012006z

FROM: MEXICO CITY 38255

in 086343

TO: DIRECTOR

PLEASE PASS THE TEXT OF MR. DONALD SYVRUD'S MESSAGE
TO THE TREASURY DEPARTMENT. (*Under Secretary YEO, Sam Cross,
F.L. Widman*)

SUBJECT: MEXICAN FOREIGN EXCHANGE DEVELOPMENTS IN 1976.

1. ON THE BASIS OF DATA COMPILED OVER THE WEEKEND BY ALFREDO PHILLIPS AND HIS STAFF, I PREPARED THE ATTACHED MEMORANDUM (BEING SENT SEPARATELY) WHICH ATTEMPTS TO RECONCILE FOREIGN EXCHANGE RESERVE MOVEMENTS AND INTERVENTION DATA AND PROJECTS BORROWING REQUIREMENTS AND AVAILABILITIES FOR THE REMAINDER OF 1976. I DISCUSSED HIS MEMORANDUM AND THE TABLES APPENDED TO IT WITH FERNANDEZ-HURTADO OCTOBER 31. HE COMMENTED ON SEVERAL PARAGRAPHS BUT AGREED TO ITS ACCURACY, AND TO FORWARDING

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PAGE 02

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MEXI 38255

IT TO WASHINGTON. HE ASSUMES THAT IT WILL ALSO BE GIVEN TO THE FED. BOTH HE AND PHILLIPS HAVE COPIES OF THE MEMO.

2. IN SUM, THE MEMO CONCLUDES: MEXICO'S GROSS FOREIGN EXCHANGE RESERVE POSITION AS OF OCTOBER 29 WAS \$778 MILLION. THE INTERVENTION DATA MEASURES THE CHANGE IN NET FOREIGN RESERVES WHICH DECLINED BY \$3,400 MILLION THROUGH OCTOBER -5, GROSS RESERVES DECLINED \$955 MILLION, AND FOREIGN EXCHANGE LIABILITIES INCREASED BY THE REMAINDER, OF WHICH \$365 MILLION SWAP TO THE U.S. TREASURY, \$700 MILLION LIABILITY TO MEXICAN COMMERCIAL BANKS AND \$1,380 MILLION LIABILITY TO MEXICAN PUBLIC ENTERPRISES. BANK OF MEXICO PROJECTIONS FOR NOVEMBER AND DECEMBER SHOW A NET INFLOW OF \$205 MILLION, ASSUMING NO FURTHER SPECULATIVE OUTFLOW. HOWEVER, THIS PROJECTION INCLUDES \$800 MILLION "SPECIAL FINANCING" FROM THE BANK OF AMERICA GROUP. EXCLUDING THIS CREDIT BOM PROJECTS A \$600 MILLION DEFICIT FOR THE TWO MONTHS PLUS WHATEVER PRIVATE CAPITAL OUTFLOW MAY OCCUR.

3. FERNANDEZ-HURTADO ALSO AGREED THAT THE NEXT STEPS SHOULD BE (A) TO IMPROVE OUR REPORTING SYSTEM, AND (B). TO EXAMINE THE PUBLIC SECTOR FINANCIAL DATA AND DOMESTIC

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PAGE 03

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MONETARY AND CREDIT TRENDS WITH THE AIM OF ASSESSING THE OUTLOOK FOR THE NEXT TWO MONTHS.

4. IN OUR DISCUSSION OF THE MEMORANDUM, F-H MADE THE FOLLOWING ADDITIONAL POINTS:

(A) NET PUBLIC SECTOR BORROWINGS FOR 1976 ARE ESTIMATED AT \$4.500 MILLION. NET BORROWINGS THROUGH END SEPTEMBER ARE \$3,847 MILLION; OCTOBER NET BORROWINGS WERE NEGLIGIBLE, THE FORECAST FOR NOVEMBER-DECEMBER IS \$654 MILLION (TABLE 5).

ck - 3.0
Flight - 2.5
5.5
Pub Sec + 4.5
Reserve + 1.0
5.5

(B) ASSUMING A CURRENT ACCOUNT DEFICIT OF \$3000 MILLION (TABLE 4), GROSS RESERVE LOSS OF \$1000 MILLION, AND NET PUBLIC SECTOR BORROWINGS OF \$4,500 MILLION, SPECULATIVE CAPITAL FLIGHT WOULD AMOUNT TO \$2,500 MILLION FOR 1976.

(C) THE ASSUMPTION IN TABLE 5 THAT THE PUBLIC SECTOR WOULD ROLL OVER EXISTING DEBTS MAY BE OPTIMISTIC. HE THOUGHT SOME OF THE BANKS WOULD NOT WANT TO MAINTAIN THEIR EXPOSURE, PARTICULARLY THOSE PARTICIPATING IN THE \$800 MILLION SPECIAL FINANCING. THE ASSUMPTION FOR ROLLOVER OF PRIVATE SECTOR CREDITS, HE THOUGHT, WAS REALISTIC.

(D) PRIORITY MUST BE TO STEM THE OUTFLOW OF DOLLARS.

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PAGE 04

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THE PERIOD NOVEMBER 15 TO END OF JANUARY IS SEASONABLY THE MOST FAVORABLE FOR THE BALANCE OF PAYMENTS, BUT THE POLITICAL CLIMATE IS NOT HELPFUL.

(E) THREE FACTORS ARE IMPORTANT IN ASSESSING MARKET CONFIDENCE: THE LEVEL OF PUBLIC SECTOR SPENDING, THE TREND OF WAGE SETTLEMENTS, AND THE ATTITUDE OF THE NEW GOVERNMENT TO THE PRIVATE SECTOR. THE TREND OF WAGE SETTLEMENTS IS FIXED FOR NOW, THE LOPEZ-PORTILLO GOVERNMENT WILL HAVE TO HOLD THE LINE THERE TOO, AS IT IS EXPECTED TO DO ON PUBLIC SECTOR SPENDING.

(F) HE ELABORATED ON EARLIER VIEWS ON THE EXCHANGE MARKET. HIS AIM IS TO ELIMINATE SPECULATION WITH MINIMUM INTERVENTION, GIVEN CONFIDENCE FACTOR, THIS WILL BE DIFFICULT TO DO PRIOR TO DECEMBER 1. FURTHER, DEPRECIATION OF THE RATE WILL CONTRIBUTE TO SPECULATIVE

How? HE IS AIMING AT HOLDING THE RATE BETWEEN 20-25 PER U.S. DOLLAR WITH MINIMUM MARKET INTERVENTION AND A WIDENING BAND. HE PLANS TO WIDEN GRADUALLY THE BAND WITHIN WHICH THE BANKS CAN QUOTE, WHILE HOLDING THE SPREAD BETWEEN BUYING AND SELING RATES TO ONE PERCENT. ON OCTOBER 31,



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FOR EXAMPLE THE BOM RATES WERE \$24.40 BUYING AND \$25.65
SELLING PER DOLLAR, A BAND OF ABOUT 5 PERCENT. THIS BAND
WILL BE WIDENED, WITHOUT ANY PUBLIC ANNOUNCEMENT, TO GIVE THE
MARKET A SENSE OF THE DIRECTION THE BOM EXPECTS; THE BAND
WILL BE WIDENED IN A DOWNWARD DIRECTION, THAT IS, BY GREATER
REDUCTION IN THE BUYING RATE BELOW 24.40.

that narrows band



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I NOVEMBER 1976

RECEIVED 012338Z

FROM: MEXICO CITY 38264

IN 086483

TO DIRECTOR

PAGE 1

THE FOLLOWING IS ATTACHMENT TO 1 NOV MESSAGE FROM MR. DONALD SYVRUD TO TREASURY DEPARTMENT FOR ATTENTION OF UNDER SECRETARY YEO, MR. SAM CROSS AND MR. F.L. WIDMAN.

SUBJECT: FOREIGN EXCHANGE DEVELOPMENTS IN
1976.

INTRODUCTION

1. THIS PAPER TRACES THE BANK OF MEXICO'S (BOM) FOREIGN EXCHANGE RESERVE POSITION AND INTERVENTION DATA FOR 1976, RECONCILES CHANGES IN THE RESERVE POSITION WITH INTERVENTION DATA, AND PROJECTS THE BORROWING REQUIREMENTS AND FOREIGN EXCHANGE AVAILABILITIES FOR THE REMAINDER OF 1976.

FOREIGN EXCHANGE RESERVES

2. THE BANK OF MEXICO'S GROSS FOREIGN EXCHANGE RESERVES AS OF OCTOBER 29, 1976, TOTALLED 778 MILLION, A DECLINE OF 797 MILLION SINCE DECEMBER 30, 1975. THE COMPOSITION OF GROSS RESERVES ON THE BASIS OF PRELIMINARY DATA ARE: GOLD, 264; IMF, 0; SDRS, 50;

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MR 95-2; *8; Treasury Lt 3/7/96

By Lt NARA Date 5/30/96



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Page 2

EX, 444; US TREASURY BILLS, 19; ACCEPTANCES, 1; NET BILATERAL PAYMENTS POSITION, 19; SEE TABLE 1.

(IF THE GOLD HOLDINGS ON OCTOBER 28 WERE VALUED AT A CONSTANT PRICE OF \$42.22 PER OUNCE, THE SAME VALUE AS OF DECEMBER 30, 1975, THE CHANGE IN GROSS FOREIGN EXCHANGE RESERVES WOULD AMOUNT TO \$955 MILLION).

THE BANK OF MEXICO'S NET FOREIGN EXCHANGE RESERVE POSITION, TAKING THE U.S. TREASURY SWAP INTO ACCOUNT, WAS \$436 MILLION ON OCTOBER 29. THIS TREASURY SWAP WILL BE PAID ON NOVEMBER 5, TO BE COVERED BY AN EQUAL DOLLAR AMOUNT DRAWN FROM THE IMF. (SDR 134 MILLION OF THE FIRST CREDIT TRANCHE AND SDR 185 MILLION OF THE COMPENSATORY FINANCING FACILITY ON NOVEMBER 1 AND 3).

3. INCLUDING THE SWAP AS A LIABILITY (SWAPS BEING PESO OBLIGATIONS ARE NOT A LEGAL FOREIGN EXCHANGE LIABILITY OF THE BANK OF MEXICO), THE DECLINE IN THE NET FOREIGN EXCHANGE POSITION OF THE BANK THROUGH OCTOBER 29 AMOUNTED TO \$1320 MILLION, AN AVERAGE OF \$132 MILLION PER MONTH,

4. THESE GROSS AND NET FOREIGN EXCHANGE POSITIONS ARE CONSISTENT WITH THOSE PROVIDED WEEKLY.

NET FOREIGN EXCHANGE MARKET INTERVENTION

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Page 3



5. DURING THE FIRST TEN MONTHS OF 1976 - TO OCTOBER 29, THE BANK OF MEXICO'S FOREIGN EXCHANGE OPERATIONS RESULTED IN NET SALES OF \$3400 MILLION. MONTHLY INTERVENTION DATA, SHOWING THE NET PURCHASES AS SALES TO THE PRIVATE SECTOR AND TO PUBLIC SECTOR ENTERPRISES, ARE INCLUDED IN TABLE 2.

6. THE ACCUMULATED INTERVENTION DATA ARE CONSISTENT WITH THOSE PROVIDED ON A DAILY BASIS.

RECONCILIATION OF RESERVE AND INTERVENTION DATA

7. THE KEY TO RECONCILING THE DIFFERENCES BETWEEN CHANGES IN RESERVE DATA AND INTERVENTION DATA IS AN UNDERSTANDING THAT THE MEXICAN ECONOMY OPERATES VIRTUALLY ON A TWO CURRENCY BASIS-DOLLARS AND PESOS. THERE IS COMPLETE CONVERTIBILITY BETWEEN THE TWO CURRENCIES AT ALL STAGES. INDIVIDUALS AND FIRMS, FOREIGN OR DOMESTIC, MAY HOLD PESO OR DOLLAR DENOMINATED ACCOUNTS IN COMMERCIAL BANKS. COMMERCIAL BANKS IN TURN MAY HOLD PESO OR DOLLAR DENOMINATED ACCOUNTS AT THE BANK OF MEXICO. THE ONLY LIMITATION ON COMMERCIAL BANKS IS THAT THEY ARE REQUIRED TO BALANCE THEIR FOREIGN EXCHANGE POSITIONS EACH DAY. PUBLIC ENTERPRISES ALSO HOLD DOLLAR DENOMINATED AS WELL AS PESO DENOMINATED ACCOUNTS AT THE BANK OF MEXICO.

8. MOST OF THE DIFFERENCES BETWEEN RESERVE AND INTERVENTION

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Page 4



DATA ARE ATTRIBUTABLE TO FREE CONVERTIBILITY AND THE RIGHT TO HOLD DOLLAR DENOMINATED ACCOUNTS IN THE BANK OF MEXICO. MANY OF THE TRANSACTIONS OF THE BANKS OR THE PUBLIC ENTERPRISES ARE MERELY "TRANSFERS" FROM THEIR PESO ACCOUNT TO THEIR DOLLAR ACCOUNT (OR VICEVERSA) IN THE BANK OF MEXICO. SUCH A TRANSFER WOULD INVOLVE A BANK OF MEXICO SALE OF DOLLAR FOR PESO (OR VICEVERSA) AND WOULD THUS BE INCLUDED IN INTERVENTION DATA. THE TRANSACTION WOULD ALSO INCREASE (OR REDUCE) THE BANK OF MEXICO'S DOMESTIC DOLLAR LIABILITIES (TO THE BANK OR ENTERPRISE) BUT IT WOULD NOT AFFECT ITS GROSS FOREIGN EXCHANGE HOLDING.

9. IF THE COMMERCIAL BANK (OR PE) SIMULTANEOUSLY REQUESTED A TRANSFER FROM ITS PESO ACCOUNT TO ITS DOLLAR ACCOUNT AND REQUESTED PAYMENT OF THE DOLLARS TO A U.S. BANK, THIS TRANSACTION, "FOREIGN EXCHANGE DRAFTS AND PAYMENT ORDERS" INVOLVES BOTH INTERVENTION (A BANK OF MEXICO'S SALE OF DOLLARS FOR PESOS) AND A RESERVE LOSS (A REDUCTION IN THE BANK OF MEXICO'S DOLLAR LIABILITY TO THE BANK AND A SIMILAR REDUCTION IN THE FOREIGN EXCHANGE ASSETS).

10. IF THE COMMERCIAL BANK (OR PE) REQUESTS A TRANSFER FROM ITS DOLLAR ACCOUNT IN THE BANK OF MEXICO TO A FOREIGN BANK, THERE IS NO PESO-DOLLAR TRANSACTION AND THUS NO INTERVENTION, BUT THE BANK OF MEXI-

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Page 5

CO AGAIN DRAWS DOWN ITS FOREIGN EXCHANGE RESERVES TO MAKE THE PAYMENT ABROAD - AGAIN REDUCING ITS DOLLAR LIABILITY TO THE MEXICAN BANK. THE BANK OF MEXICO REFERS TO THIS TRANSACTION AS "TRANSACTIONS IN U.S. DOLLARS ONLY".

11. COMPARISON OF CHANGES IN NET FOREIGN EXCHANGE RESERVE POSITION THROUGH OCTOBER 29 (\$1320 MILLION PER PARA. 3) WITH NET INTERVENTION DATA (\$3400 MILLION PER PARA. 5) RESULTS IN A DIFFERENCE OF \$2,080 MILLION. PRECISE DATA TO RECONCILE THIS DIFFERENCE FOR THE ENTIRE YEAR ARE NOT READILY AVAILABLE, BUT WITH A MAJOR EFFORT COULD BE PULLED TOGETHER FROM DAILY WORKSHEETS. IN RECOGNITION OF THE NEED TO BEGIN RECONCILING RESERVE AND INTERVENTION DATA THE BANK OF MEXICO INITIATED ON SEPTEMBER 16 A DAILY SUMMARY WHICH FACILITATED THIS RECONCILIATION. THESE DATA FOR SEPTEMBER 16 TO OCTOBER 19 ARE INCLUDED IN TABLE 3.

12. FAIRLY ACCURATE DATA ON NET CHANGES IN FOREIGN EXCHANGE RESERVES OF THE BANK OF MEXICO ARE AVAILABLE DAILY THROUGH CALCULATION OF THE THREE TRANSACTIONS DESCRIBED IN PARAGRAPHS 8-10 ABOVE.

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Page 6



BOTH THE COMMERCIAL BANKS AND THE PUBLIC ENTERPRISES ENGAGE IN ALL THREE OF THE TRANSACTIONS DESCRIBED ABOVE,

13. ANOTHER APPROACH TO EXPLAINING THE DIFFERENCE BETWEEN INTERVENTION AND RESERVE DATA IS TO EXAMINE THE OPERATIONS OF THE COMMERCIAL BANKS AND PUBLIC ENTERPRISES SEPARATELY. THE COMMERCIAL BANKS ARE REQUIRED TO DEPOSIT IN THE BANK OF MEXICO AN AVERAGE OF 75 PER CENT OF THEIR DOLLAR LIABILITIES. THE BANK OF MEXICO RECORDS THESE DOLLAR DENOMINATED DEPOSITS AS FOREIGN EXCHANGE LIABILITIES TO THE COMMERCIAL BANKS. THROUGH OCTOBER 28, THESE LIABILITIES INCREASED BY \$700 MILLION (FROM 7.5 MILLION ON DECEMBER 30, 1975 TO 708 MILLION ON OCTOBER 28). ASSUMING THIS AMOUNT AS A BANK OF MEXICO FOREIGN EXCHANGE LIABILITY, NET FOREIGN EXCHANGE RESERVES DECLINED \$2,039 MILLION (FROM \$1567 MILLION ON DECEMBER 30, TO A NEGATIVE \$295 MILLION ON OCTOBER 29, INCLUDING A \$177 MILLION ADJUSTMENT FOR THE CHANGE IN THE GOLD VALUATION SYSTEM).

14. TAKING ALL KNOWN ITEMS INTO ACCOUNT, WE CAN EXPLAIN \$2,020 MIL-

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Page 7

LION OF THE \$3,400 MILLION NET INTERVENTION LOSS, MOST OF THE REMAINING \$1,380 MILLION IS ATTRIBUTABLE TO THE BANK OF MEXICO'S TRANSACTIONS WITH THE PUBLIC ENTERPRISES. WHEN A PUBLIC ENTERPRISE BORROWS DOLLARS FOR THE SPECIAL TRUST FUND, THE PROCEEDS ARE DEPOSITED IN A DOLLAR ACCOUNT IN A FOREIGN BANK TO THE ACCOUNT OF THE BANK OF MEXICO (AS A TRUSTEE), TO THE EXTENT THAT THE GOVERNMENT OF MEXICO AUTHORIZES DELIVERY OF THOSE DOLLARS TO PUBLIC ENTITIES, FOR PAYMENT OF IMPORTS OR DEBT SERVICES, THE TRANSACTION IS A "US DOLLAR ONLY" TRANSACTION, WITH NO INTERVENTION INVOLVED. TO THE EXTENT THAT THE GOVERNMENT OF MEXICO AUTHORIZES DELIVERY OF THE DOLLAR PROCEEDS FOR EXPENDITURES IN MEXICO, THE DOLLARS ARE CONVERTED INTO PESOS AND ARE INCLUDED IN THE INTERVENTION DATA AS A PURCHASE OF DOLLARS FOR PESOS, TO THE EXTENT THAT THE DOLLARS REMAIN ON ACCOUNT AT THE BANK OF MEXICO, THEY REMAIN AS A LIABILITY. ALL THESE TRANSACTIONS FROM BEGINNING TO END, ARE SIMULTANEOUSLY REGISTERED IN MEMORANDA ACCOUNTS.

15. DATA ON BANK OF MEXICO TRANSACTION WITH PUBLIC ENTERPRISES ARE NOT READILY AVAILABLE. A MAJOR EFFORT WOULD BE REQUIRED TO SUMMARIZE THE INCREASE IN BANK OF MEXICO USE OF TRUST FUND DOLLAR RESOURCES.

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Page 8



16. IN SUM, NET FOREIGN RESERVES HAVE DECLINED BY \$3,400 MILLION DURING THE YEAR TO OCTOBER 29. GROSS RESERVES HAVE DECLINED BY \$955 MILLION, AND FOREIGN EXCHANGE LIABILITIES HAVE INCREASED BY THE DIFFERENCES, OF WHICH 365 MILLION SWAP TO THE U.S. TREASURY, \$700 MILLION LIABILITY TO THE COMMERCIAL BANKS AND \$1,380 MILLION LIABILITY TO THE PUBLIC ENTERPRISES.
PROJECTIONS FOR NOVEMBER AND DECEMBER

17. THE CRITICAL UNKNOWN IN PROJECTING THE BANK OF MEXICO'S FOREIGN EXCHANGE REQUIREMENTS AND AVAILABILITIES FOR THE REMAINDER OF 1976 IS THE LEVEL OF SPECULATIVE CAPITAL OUTFLOW RESULTING FROM A LACK OF CONFIDENCE. ON THE ASSUMPTION OF NO SPECULATIVE CAPITAL OUTFLOW AND, BASED ON THE BEST AVAILABLE DATA ON THE TREND OF THE CURRENT ACCOUNT AND REASONABLE ASSUMPTIONS REGARDING CAPITAL ACCOUNT MOVEMENTS, THE BANK OF MEXICO PROJECTS A \$204 MILLION NET INFLOW FOR THE FINAL TWO MONTHS OF 1976. THE PROJECTIONS AND THE ASSUMPTIONS ON WHICH THE PROJECTIONS ARE MADE ARE SHOWN IN TABLE 5.

18. THE BANK OF MEXICO IS PROJECTING A CURRENT ACCOUNT DEFICIT FOR THE LAST TWO MONTHS OF \$450 MILLION. THIS IS BASED ON A FORECAST DEFICIT FOR 1976 OF \$2,997 BILLION, OF WHICH \$2,103 MILLION

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Page 9

IS A PRELIMINARY ACTUAL THROUGH AUGUST. FOR THE FINAL FOUR MONTHS THE BANK OF MEXICO EXPECTS A SMALLER (\$225 MILLION) MONTHLY DEFICIT THAN DURING THE EARLIER EIGHT MONTHS (263 MILLION), BUT STILL BIGGER THAN THE FIRST QUARTER (\$212 MILLION).

19. PUBLIC SECTOR CAPITAL ACCOUNT TRANSACTIONS ARE PROJECTED BY THE FINANCE MINISTRY TO RESULT IN A NEW INFLOW OF \$654 MILLION, WITH AMORTIZATIONS OF \$300 MILLION AND BORROWING OF \$1,454 MILLION. THIS LATTER INCLUDES AN \$800 MILLION CREDIT ARRANGED BY THE BANK OF AMERICA FOV LATE NOVEMBER OR EARLY DECEMBER.

20. PRIVATE SECTOR CAPITAL ACCOUNT TRANSACTIONS BOTH LONG AND SHORT TERM, ARE ASSUMED TO BE IN BALANCE FOR THE REST OF THE YEAR WITH AMORTIZATIONS OF \$577 MILLION OFFSET BY BORROWING OF A SIMILAR AMOUNT. GIVEN THE EXCEPTIONALLY TIGHT MONETARY SITUATION, TO BE DESCRIBED LATER, THIS ASSUMPTION SEEMS REALISTIC.

21. FINALLY, THE U.S. TREASURY SWAP IS DUE FOR REPAYMENT ON NOVEMBER 5, TO BE COVERED BY DRAWINGS FROM THE IMF OF A SIMILAR AMOUNT ON NOVEMBER 2 AND 4.

THE KEY UNKNOWN IS THE AMOUNT OF SPECULATIVE CAPITAL FLIGHT BASED ON THE CONFIDENCE FACTOR.

LIST OF TABLES

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~~S E C R E T~~

Page 10

1. FOREIGN EXCHANGE RESERVES
DEC, 1975 - OCT, 28, 1976, BY MONTH
(MILLIONS OF US DOLLARS)
2. NET FOREIGN EXCHANGE INTERVENTION
FROM END OF DEC, 1975 TO OCT, 29, 1976, BY MONTH, WITH BREAK-
DOWN OF NET PUBLIC SECTOR AND PRIVATE SECTOR OPERATIONS,
(MILLIONS OF US DOLLARS)
3. RECONCILIATION OF FOREIGN EXCHANGE RESERVE CHANGES AND NET
INTERVENTION
DATA SEPT, 17 TO OCT, 29, 1976 (TO BE POUCHED)
(MILLIONS OF US DOLLARS)
4. BALANCE OF PAYMENTS 1976, BY QUARTER
ACTUAL TO FIRST SEMESTER 1976 AND PROJECTIONS FOR
SECOND SEMESTER 1976,
(MILLIONS OF US DOLLARS)
5. PROJECTED FOREIGN EXCHANGE
REQUIREMENTS AND AVAILABILITIES, NOVEMBER AND DECEMBER 1976,
(MILLIONS OF US DOLLARS)
6. FOREIGN EXCHANGE RESERVE
SEPT, 17 - OCT, 28, 1976 (TO BE POUCHED)

~~S E C R E T~~



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Page //



FX Res

TABLE NO. 1

	DEC.75	JAN.76	FEB.	MAR.	APR.(##)	
GOLD	154.6(##)	152.0(##)	152.0(##)	152.0(##)	396.1	
IMF	118.0	118.0	118.0	118.0	118.0	
SDR	100.9	100.8	100.8	99.7	99.3	
FOREIGN EXCHANGE	1,111.8	1,041.7	1,196.9	1,114.3	853.8	
NET BILATERAL	46.6	18.2	25.0	30.6	41.3	
AGREEMENT						
U.S. TREASURY BILLS	13.2	6.5	9.1	7.8	5.6	
ACCEPTANCES	30.1	13.9	24.5	20.0	23.0	
	-----	-----	-----	-----	-----	
GROSS FOREIGN						
EXCHANGE RESERVES	1,575.2	1,451.1	1,626.3	1,542.4	1,537.1	
	<u>MAY</u>	<u>JUN</u>	<u>JUL</u>	<u>AUG</u>	<u>SEPT</u>	<u>OCT</u>
<i>Gold</i>	396.1	396.1	364.5	337.0	361.8	264
<i>IMF</i>	118.0	118.0	118.0	118.0	113.1	----

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Page 12

<i>SDR</i>	98.8	98.3	98.4	98.7	49.1	50
<i>FX</i>	896.1	1,039.5	754.5	750.3	530.5	444
	18.5	29.9	38.6	46.3	11.6	19
	10.4	10.0	5.7	13.4	11.6	19
	61.2	75.7	15.2	----	----	----

GROSS FOREIGN

EXCHANGE RESERVES

1,599.1 1,767.5 1,394.9 1,363.7 1,077.7 778

CHANGE IN GROSS RESERVES

797

(#) GOLD IS VALUED AT 42.22 / OZ

(##) GOLD IS VALUED AT 90 PERCENT OF THE AVERAGE U.S. DOLLAR MARKET PRICE FOR THE PRECEDING THREE MONTHS OR OF THE MOST RECENT DATE, WHICHEVER IS LESS.

(###) FIGURES AS OF END OF MONTH

SOURCE: BANK OF MEXICO, CLASSIFIED REPORTS.

TABLE NO. 2

NET FOREIGN EXCHANGE PURCHASES AND SALES

(INTERVENTION) BY MONTH, JANUARY - OCTOBER,

1976, WITH PUBLIC AND PRIVATE SECTOR OPERATIONS.

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Page 13

MONTH	PRIVATE	PUBLIC	TOTAL
JANUARY	MINUS 188	PLUS 5	MINUS 183
FEBRUARY	MINUS 259	PLUS 258	MINUS 1
MARCH	MINUS 371	PLUS 232	MINUS 139
APRIL	MINUS 514	PLUS 191	MINUS 323
MAY	MINUS 29	MINUS 176	MINUS 205
JUNE	MINUS 173	MINUS 316	MINUS 489
JULY	MINUS 255	MINUS 133	MINUS 388
AUGUST	MINUS 541	PLUS 55	MINUS 486
SEPTEMBER	MINUS 256	MINUS 41	MINUS 297
OCTOBER##	MINUS 637	MINUS 249	MINUS 886
	MINUS 3,223	MINUS 174	MINUS 3,397

INCLUDES AN ESTIMATE FOR OCTOBER 29.

TABLE 4

QUARTERLY FORECAST OF THE MEXICAN BALANCE OF PAYMENTS 1/

MILLIONS OF DOLLARS

~~S E C R E T~~



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Page 14

BP



	JANUARY	APRIL	JULY	SEPTEMBER	TOTAL
	MARCH#	JUNE#	AUGUST	DECEMBER	
I. BALANCE ON GOODS					
& SERVICES	-635.1	-874.0	-594.4	-893.6	<u>-2 997.1</u>
A. EXPORT OF GOODS					
& SERVICES	1 704.8	1 827.0	1 170.6	2 062.0	6 764.4
1. MERCHANDISE	781.0	879.5	465.5	1 134.5	3 260.5
2. SILVER	35.6	38.7	27.0	62.0	163.3
3. TOURISM	237.6	202.8	152.4	200.0	792.8
4. INTERNATIONAL					
TRAVEL	23.8	25.1	18.0	33.1	100.0
5. FRONTIER					
TRANSACTIONS	391.2	405.1	310.0	381.6	1 487.2
6. IN-BOND ASSEMBLY					
PLANTS	125.2	154.4	102.7	142.3	524.6
7. OTHER	110.4	121.4	95.0	108.5	435.3
B. IMPORTS OF GOODS					
& SERVICES	2 339.9	2 701.0	1 765.0	2 955.6	9 761.5

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Page 15

BP-2

July-Aug *Sept-Dec* *Total*

1. MERCHANDISE	1 433.4	1 656.8	1 100.0	1 810.0	6 000.2
A) PUBLIC SECTOR	560.8	525.4	350.0	572.0	2 008.2
B) PRIVATE SECTOR	872.6	1 131.4	750.0	1 238.0	3 992.0
2. TOURISM	70.6	118.2	90.0	101.3	380.1
3. INTERNATIONAL					
TRAVEL	23.7	47.1	24.0	83.0	127.8
4. FRONTIER					
TRANSACTIONS	257.3	264.9	181.0	226.3	929.5
5. DIVIDENDS &					
INTEREST	198.9	204.5	120.0	240.0	763.4



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Page 16

			<i>July-Aug</i>	<i>Sept-Dec</i>	
6. INTEREST ON					
OFFICIAL DEBTS	239.0	280.3	150.0	355.0	<u>1 024.3</u>
7. OTHER	117.0	129.2	100.0	190.0	536.2
II. LONG-TERM	1 038.5	800.9	600.0	1 308.6	3 748.0
III. CHANGE IN THE BANK OF MEXICO'S					
RESERVES 2/	403.4	-73.1	5.6	415.0	750.9

#PRELIMINARY

1/ ASSUMES A 4.5 PERCENT GROWTH RATE.

2/ INCREASE IN INTERNATIONAL ASSETS AND/OR CAPITAL OUTFLOWS.

TABLE 4

(CONT.)

FOREIGN DEBT SERVICE OF THE PUBLIC SECTOR

(MILLIONS OF DOLLARS)



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Page 17

Debt Service



	1976	1977	
	SEPT-DEC	JAN-JUN	JUL-DEC
TOTAL	2 035.0	3 662.2	3 794.2
A. LONG TERM	755.0	1 530.0	1 722.0
INTEREST	355.0	830.0	770.0
AMORTIZATION	400.0	700.0	952.0
B. SHORT TERM	1 280.0	2 132.2	2 072.2
INTEREST	80.0	180.0	120.0
AMORTIZATION	1 200.0	1 952.2	1 952.2

TABLE 5

NOVEMBER-DECEMBER 1976

I. OUTFLOWS

U.S. DLS.

MILLION

A. CURRENT ACCOUNT DEFICIT

450

B. PUBLIC DEBT PAYMENTS

800

B.1 LONG TERM

200

To be rolled over - (F.1)

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Page 18

B.2 SHORT TERM	600	
C. PRIVATE DEBT (TOTAL)	577	<i>Estimated 1/6 of short D</i>
D. U.S. TREASURY SWAP	365	<i>" 127 a long D</i>
E. SUB-TOTAL	2,192	
II. INFLOWS		
F. PUBLIC SECTOR DEBT	1,454	
F.1 LONG TERM	854	
F.2 SHORT TERM	600	<i>could be of roll overs</i>
G. PRIVATE SECTOR DEBT	577	<i>good roll overs?</i>
H. I.M.F.	365	
I. SUB-TOTAL	2,396	
J. TOTAL (II - I)	PLUS 204	
K. ERRORS AND OMISSIONS	N.A.	

NOTES AND ASSUMPTIONS FOR TABLE 5

I. OUTFLOWS.

A. CURRENT ACCOUNT DEFICIT. - ON BASIS OF AN ESTIMATED CURRENT ACCOUNT DEFICIT OF U.S. \$2,997.1 FOR 1976, AND 893.4 FOR THE 4 MONTH PERIOD, SEPTEMBER-DECEMBER 1976, FOR 2 MONTH PERIOD NOVEMBER-DECEMBER A DEFICIT IS ESTIMATED AT US \$450 MILLION. THE DEFICIT IS BASED ON BANK OF MEXICO'S FIGURES AND DEFINITIONS, WHICH DIFFER

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Page 19

FROM THE IMF ESTIMATES DUE TO NETTING OF REMITTANCES OF PROFITS AND DIVIDENDS AND INVESTMENTS OF THESE. THERE IS ALSO A DIFFERENCE OF APPROXIMATELY 300 MILLION IN THE ESTIMATES.

B. SUM OF B.1 AND B.2.

B.1. . ON BASIS OF BALANCE OF PAYMENTS ESTIMATES FOR 1976, U.S. \$200 MILLION REPRESENTS PROJECTED AMORTIZATIONS OF PUBLIC SECTOR EXTERNAL DEBT.

B.2. ESTIMATES BASED ON BALANCE OF PAYMENTS FIGURES.

C. IT IS ASSUMED THAT:

I) OUT OF TOTAL PRIVATE SECTOR EXTERNAL SHORT-TERM DEBT ESTIMATED AT US \$2,703 MILLION AS OF JUNE 30, 1976, 1/6 FALLS DUE ON THE 2 MONTH PERIOD AMOUNTING TO US \$450 MILLION.

II) AVERAGE MATURITY OF PRIVATE SECTOR LONG-TERM DEBT IS 5 YEARS; OUT OF A TOTAL OF US \$3,867 MILLION OUTSTANDING AS OF JUNE 30, 1976, IT IS ESTIMATED THAT US \$770 FALLS DUE IN 1976, AND OUT OF THAT, US \$127 MILLION, IS DUE IN NOV-DEC 1976.

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Page 20-20

THEREFORE, 450 PLUS 127 EQUALS 577 MILLION.

*Total see numbers
Nov-Dec 76*

D. PAYMENT OF U.S. TREASURY SWAP.

F. RESULT OF F.1 AND F.2

F.1 HALF OF A TOTAL NET INFLOW OF US\$1,308.6 INCLUDED 654
IN BALANCE OF PAYMENTS ESTIMATES FOR 4 MONTH PERIOD SEPTEMBER- 200
DECEMBER 1976, PLUS US \$200 TO BE AMORTIZED (SEE B.1). 854

F.2 IT IS ASSUMED THAT ALL SHORT-TERM PUBLIC SECTOR
DEBT IS ROLLED OVER.

G. IT IS ASSUMED THAT ALL PRIVATE SECTOR DEBT (SHORT
AND LONG TERM) IS ROLLED OVER (SEE C ABOVE).

H. I.M.F. DRAWINGS ON FIRST CREDIT TRANCHE AND
COMPENSATORY FINANCING FACILITY.

E-2. IMPDET.

No Fed swap in estimates.



~~SECRET~~

to: Chairman Burns
Federal Reserve Board

room: 2046 date: 11/3/76

Department
of the Treasury
Office of Special
Assistant to Secretary
for National Security

Per your request to Sten Shrieber, I am forwarding the reports from Mexico on which he based his briefing yesterday. I have added an assessment [redacted] and a summary of a long Embassy telegram which we did for Secretary Simon. I believe by this time you should also have seen some special reporting from Don Syvrud of Lisle Widman's office which was sent to Mr. Wallich yesterday.

1.5(c)
1.6(d)(1)
Conf.

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With PORTIONS EXEMPTED
E.O. 12958 Sec. 1.5 (c)1.6(D)(1)

MR 95-2, #9 CIA Hr. 6/1/97

By KBH NARA, Date 10/17/97



J. Foster Collins

J. Foster Collins
room 4328
ext. 2631 - 2632

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Author: [redacted]



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PAGE 01 MEXICO 13678 271834Z

14
ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 FRB-03
 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
 CEA-01 /074 W

File MEXICO

104377

R 271630Z OCT 76
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 8243

~~CONFIDENTIAL~~ MEXICO 13678

del 7/25/07

E. O. 11652: GDS
TAGS: EFIN, EINV, MX

SUBJECT: JLP MEETS WITH TOP U.S. BUSINESSMEN; SUBSEQUENTLY DISCUSSES MEETING WITH AMBASSADOR

OCT 28 12 37 AM '76

TELECOMMUNICATIONS
BRANCH
RM. 2000-C MT BLDG.

TREASURY
TELECOMMUNICATIONS

1. SUMMARY: ON FRIDAY, OCTOBER 22, A DOZEN MAJOR U.S. BUSINESSMEN/INVESTORS MET PRIVATELY WITH LOPEZ PORTILLO FOR A FRANK DISCUSSION OF FOREIGN (U.S.) INVESTMENT IN MEXICO OF THE NEXT SIX YEARS. BOTH SIDES FOUND THE MEETING PRODUCTIVE, AS JLP MADE HIS SATISFACTION EXPLICIT TO THE AMBASSADOR IN THEIR TETE-A-TETE THE NEXT DAY. END SUMMARY.

2. MIGUEL ALEMAN FIRST STIMULATED THE MEETING SEVERAL MONTHS AGO. ON THE AMERICAN SIDE, DILLON REED AND COMPANY AND KENDELL (PEPSICO) ORGANIZED THE RESPONSE. THE RESULT WAS A PRIVATE MEETING OF TOP U.S. BUSINESSMEN/INVESTORS (DUPONT, GM, PEPSICO, SEARS, PFIZER AND OTHERS) WITH LOPEZ PORTILLO ON OCTOBER 22. PETER FLANIGAN (A SENIOR PARTNER IN DILLON REED) PROVIDED TALKING PAPERS TO THE U.S. PARTICIPANTS ON THE BASIS OF A TIGHTLY DRAWN AGENDA, WHICH THE BUSINESSMEN CLAIMED WAS "CLEARED WITH SECRETARY KISSINGER".

3. THE AMERICANS, HAVING MET PREVIOUSLY IN THE U.S., WERE PREPARED FOR A FRANK DISCUSSION. UNLIKE A

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PRIOR MEETING OF U.S. BUSINESSMEN WITH PRESIDENT ECHEVERRIA ON JANUARY 18, 1975, AT WHICH THE PRESIDENT AND STAFF SERMONIZED HIS LISTERNERS, FRIDAY'S MEETING WAS NOTABLE FOR ITS FRANK INTERCHANGE IN WHICH THE AMERICAN PARTICIPANTS PRESENTED THEIR POSITIONS BASED ON FLANIGAN'S AGENDA. THE AMERICANS WERE PARTICULARLY IMPRESSED BY THE QUALITY OF THE DISCUSSION AND BY JLP'S ASSERTION HE HOPED THIS WOULD BE THE FIRST OF MANY MEETINGS.

4. LOPEZ PORTILLO STRESSED TO THE AMERICANS THAT HIS REGIME WOULD BE INDEPENDENT AND NOT CONSTRAINED BY THE POLICIES OF THE LAST SEXENIO. TO ACHIEVE SUCH FREEDOM FROM THE PAST, HE WOULD REQUIRE THE COLLABORATION OF THE BUSINESS COMMUNITY--BOTH FOREIGN AND DOMESTIC. WHILE HE GREATLY DESIRED FOREIGN BUSINESS PARTICIPATION AND INVESTMENT IN MEXICO, IT MUST BE SELECTIVE AND STIMULATE MEXICO'S REAL GROWTH. IN ADDITION, JLP ESPOUSED THE RECURRENT THEME THAT MEXICO MUST EXPAND ITS MARKETS AND SOURCES OF FINANCE. FOREIGN BUSINESS HE SAID, MUST BE GUARANTEED EQUITABLE TREATMENT AND A FAIR PROFIT--POINTING OUT THAT THIS IS AN ARGUABLE SUM. THOUGH GOVERNMENT POLICIES REFLECTING CURRENT NEEDS SHOULD NOT VIOLATE PRIOR UNDERSTANDING WITH VESTED INTERESTS, STILL, JLP SAID, FOREIGN BUSINESSMEN MUST REALIZE THAT POLITICAL SOVEREIGNTY IN MEXICO WAS A CONCEPT OF THE HIGHEST IMPORTANCE.

5. THE U.S. BUSINESSMEN EXPRESSED THEIR CONCERN AT A NUMBER OF RECENT DEVELOPMENTS AND CURRENT TRENDS. JLP RESPONDED THAT HE KNOWS THE PROBLEMS AND THINKS HE KNOWS SOME OF THE ANSWERS, AS RUNNING MEXICO WAS, IN MANY WAYS, LIKE RUNNING A BUSINESS. PARTICULARLY IMPORTANT WAS TO OBSERVE THE RULES OF THE GAME AND NOT TO CHANGE THEM IN THE MIDDLE OF PLAY. SOME PROBLEMS HE SAID HE COULD SOLVE IMMEDIATELY; OTHERS WOULD TAKE CONSIDERABLY LONGER. THOUGH HE WAS NOT KNOWLEDGEABLE AS TO THEIR DETAILS, JLP STATED HE WOULD REVIEW, FOR EXAMPLE, THE PATENTS AND TRADEMARKS LAW FOR POSSIBLE CONFLICTS WITH MEXICO'S INTERNATIONAL TREATY OBLIGATIONS AND OTHER IRREGULARITIES; THE FOREIGN INVESTMENT LAW FOR POSSIBLE INQUITIES, THOUGH IT WAS ALSO NECESSARY TO

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PAGE 03

MEXCO 13678 271834Z

AVOID "MAJORITY ABUSE". IN RESPONSE TO THE AMERICANS' CONCERN ABOUT THE POSSIBLE USE OF PRICE CONTROLS, JLP SAID THAT WHILE UNWELCOME TO THE BUSINESS COMMUNITY, AN ECONOMIC CRISIS MIGHT REQUIRE SUCH RECOURSE.

6. FANK LORETTA (DUPONT MEXICO) REPORTED DUPONT CHAIRMAN SHAPIRO'S COMMENT THAT "THE ENTIRE GROUP WAS HIGHLY IMPRESSED" BY JLP'S FRANKNESS, LOGIC AND STRAIGHTFORWARDNESS, AND GAVE HIM HIGH MARKS FOR THE MANNER IN WHICH HE RESPONDED TO THEIR QUESTIONS AND EXPLAINED HIS OWN POSITIONS.

7. WHEN THE AMBASSADOR CALLED ON LOPEZ PORTILLO SATURDAY MORNING, JLP HIMSELF RAISED THE SUBJECT, ENTHUSIASM ABOUT THE MEETING AS HAD THE AMERICAN BUSINESSMEN THE PREVIOUS DAY. HE THOUGHT THE INTERCHANGE PRODUCTIVE AND WANTED MORE SUCH FRANK MEETINGS. HE REPEATED SEVERAL OF THE THEMES OF THE MEETING: THE FAVORABLE ROLE OF FOREIGN INVESTMENT IN MEXICO (PARTICULARLY U.S. INVESTMENT), BUT WITH THE CAVEAT THAT IT MUST BE SELECTIVE AND CONTRIBUTE DIRECTLY TO MEXICO'S DEVELOPMENT PLANS, CREATING NOT ONLY JOBS BUT FOREIGN EXCHANGE (THROUGH EXPORT) AS ON THE DAY BEFORE, HE SPOKE OF THE RULES OF THE GAME, BUT POINTED OUT BOTH SIDES MUST PLAY BY THE RULES. ADDITIONAL TO THOSE POINTS DISCUSSED IN THE BUSINESSMEN'S MEETING AND REPORTED ABOVE, THE AMBASSADOR RAISED THE CRUCIAL IMPORTANCE TO ANY INVESTMENT ASPIRATIONS OF THE GOVERNMENT OF THE NEED TO REBUILD CONFIDENCE AMONG ALL POTENTIAL INVESTORS IN THE GOM'S ABILITY TO MANAGE ITS FINANCIAL AND ECONOMIC PROGRAMS, AND TO ASSUME FAIR AND WELCOMING TREATMENT TO AMERICAN AND OTHER FOREIGN INVESTORS. THE AMBASSADOR SPECIFICALLY ALLUDED TO THE PATENTS AND TRADEMARKS LAW WHICH IS OF IMMEDIATE CONCERN TO AMERICAN INVESTORS AND OTHER BUSINESSMEN, AND RELIEF FROM WHICH WOULD BE A HIGHLY VISIBLE SIGN OF WELCOME TO U.S. INVESTMENT.

JOVA

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 RTTCZYUW RUESMOA3748 3020015-CCCC--RUEATRS.
 ZNY CCCCC ZZH
 R 280003Z OCT 76
 FM AMEMBASSY MEXICO
 TO RUEHC/SECSTATE WASHDC 8276
 INFO RUEATRS/TREASURY WASHDC
 BT

File MEXICO

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~~CONFIDENTIAL~~ MEXICO 13748

dal 7125107
 E. O. 11652: GDS
 TAGS: EFIN, MX
 SUBJECT: RE-PEGGING OF PESO

TREASURY
 TELECOMMUNICATIONS
 OCT 27 11 04 PM '76
 TELECOMMUNICATIONS
 BRANCH
 HM 2015-C MI BLDG.

1. SUMMARY: GOM DECISION TO FLOAT PESO DOWNWARD APPEARS TO US A VERY RISKY GAMBLE AIMED AT SLOWING CAPITAL OUTFLOW OR AT LEAST MAKING IT MORE EXPENSIVE PRIOR TO A BANKING DECLINE IN PUBLIC CONFIDENCE OF GOVERNMENT. OUTFLOWS HAVE CONTINUED TODAY, THOUGH MAGNITUDE DOES NOT SEEM TO BE LARGE. END SUMMARY.

2. ANNOUNCEMENT OF DECISION TO REFLOAT, OR, MORE ACCURATELY, RE-PEG PESO AT 26.24 AND 26.50 APPEARS TO HAVE BEEN A MORE OR LESS DESPERATE DECISION TO STEM CAPITAL OUTFLOWS PRIOR TO A LONG HOLIDAY WEEKEND (NOV. 2 IS A BANK HOLIDAY). CONVERSATIONS OF FINATT WITH SENIOR BANK OF MEXICO OFFICIALS ON OCTOBER 27, DID NOT GIVE ANY INDICATION THAT DECISION TO REPEG WAS IMMINENT. ALTERNATIVE TO REPEG WAS PROBABLY EXCHANGE CONTROLS.

3. WHILE BANK OF MEXICO COMMUNIQUE, REPORTED SEPARATELY, RE-EMPHASIZES THAT PESO IF FLOATING, COMMERCIAL BANKS ARE RECEIVING RATES AT WHICH THE BANK OF MEXICO WILL DEAL AND THESE ARE FOLLOWED BY BANKS. RATES FOR TODAY ARE BUYING AT 26.24 AND SELLING AT 26.50. ONE MAJOR DIFFERENCE FROM PREVIOUS RATE IS NARROWING OF SPREAD. PESO IS NOT FLOATING IN ANY SENSE, ALTHOUGH BANK OF MEXICO IS TRYING TO GIVE THE IMPRESSION IT IS.

4. WE BELIEVE THAT BANK OF MEXICO SEES RE-PEGGING AS TEMPORARY AND HOPES TO BRING DOWN THE RATE NEXT WEEK. WHILE HARD TO PROVE, WE DO NOT BELIEVE PESO OVER-VALUED AT 19.7, BUT RATHER WAS SLIGHTLY UNDER-VALUED. FURTHER 25 PERCENT DEVALUATION IS NOT JUSTIFIED ON ECONOMIC GROUNDS AT THIS TIME. THUS, MEASURE APPEARS TO BE A SORT OF DESPERATION ATTEMPT TO SLOW CAPITAL OUTFLOW.





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5. WE UNDERSTAND THAT BANKS ARE NET SELLEERS OF DOLLARS TODAY, BUT NOT IN AMOUNTS EXCEEDING RECENT DAYS. WE HAD BELIEVED, AS DID BANK OF MEXICO, THAT FURTHER DEPRECIATION OF RATE WOULD ONLY AGGRAVATE CAPITAL OUTFLOW. WHETHER THIS IS TRUE REMAINS TO BE SEEN, BUT RATE CHANGE HAD NOT BROUGHT ABOUT CAPITAL OUTFLOWS.

6. OUR INITIAL SOUNDINGS INDICATE INCREASED CONFUSION AND BITTERNESS AS WELL AS FURTHER LOSS OF CONFIDENCE IN THE GOVERNMENT.

7. TWO CHIEF EXECUTIVES OF MAJOR U.S.-OWNED COMPANIES HERE SOUGHTT US OUT TO EXPRESS THEIR CONCERN AND SEEK OUR OPINIONS. BOTH WERE SERIOUSLY CONSIDERING LIQUIDATING INVENTORIES, CONVERTING PROCEEDS INTO DOLLARS, AND REDUCING THEIR OPERATIONS TO A MINIMUM IN ORDER TO AVOID ANOTHER MAJOR LOSS TO THEIR COMPANIES. WHILE WE DO NOT KNOW HOW WIDESPREAD THSE VIEWS ARE, WE DOUBT IF THEY ARE UNIQUE TO THESE TWO. THE EARLIER VIEWS OF THSE TWO MEN WERE REFLECTED IN PARAGRAPH FOUR OF MEXICO 13372. THEIR VIEWS TODAY WERE A RAHTER SHARP AND DISTURBING REVERSAL.

8. CONFIDENCE PROBLEM REMAINS AND NEW EXCHANGE RATE WILL ONLY WORSEN MATTERS. IF NOT REDUCED WITHIN A WEEK, IT IS LIKELY TOO BRING ABOUT A FURTHER REDUCTION IN ECONOMIC ACTIVITY.

JOVA

BT

#3748



NNNN VZCZCRO628
RTTCZYUW PUESMOA3923 3070025-CCCC--RUEATRS.
ZNY CCCC 7ZH
R 012333Z NOV 76
FM AMEMBASSY MEXICO
TO RUEHC/SECSTATE WASHDC 8357
INFO RUEATRS/TREASURY WASHDC
BT
~~C O N F I D E N T I A L~~ MEXICO 13923

del 7/25/07
EO 11652: GDS
TAGS: EFIN MX
SUBJECT: POSSIBLE REVISION OF IMF PROGRAM

1. SUMMARY: IN OCT. 28 CONVERSATION, BANK OF MEXICO OFFICIAL TOLD FINATT THAT SPECIFIC TARGETS IN IMF PROGRAM IN 1977 MAY HAVE TO BE RE-NEGOTIATED. END SUMMARY.

2. IN COURSE OF CONVERSATION WITH BANK OF MEXICO OFFICIAL ON OCT. 28, FINATT ASKED WHETHER IMPACT OF RECENT DEVELOPMENTS ON THE ECONOMIC OUTCOME FOR CURRENT YEAR MIGHT NOT MAKE ATTAINMENT OF THE SPECIFIC TARGETS IN THE EFF 1977 PROGRAM MORE DIFFICULT. PARTICULAR REFERENCE WAS MADE TO THE 90 BILLION PESO BUDGET DEFICIT TARGET. OFFICIAL INDICATED THAT HE THOUGHT THIS TARGET MIGHT HAVE TO BE RENEGOTIATED, BUT THAT THE IMPORTANT TARGETS IN THE PROGRAM WERE THE RELATIONSHIPS TO GDP RATHER THAN THE SPECIFIC TARGETS SUCH AS THAT FOR 1977 PUBLIC DEFICIT.

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3. BASIS FOR QUESTION 1 OUR BELIEF THAT THE IMPACT OF DEVELOPMENTS IN THE FINAL FOUR MONTHS OF THIS YEAR MAY LEAD TO A HIGHER PUBLIC SECTOR DEFICIT THAN FORESEEN IN THE FUND PAPERS ON MEXICO. THE DEVALUATION IS LIKELY TO HAVE A SIGNIFICANT IMPACT ON CORPORATE TAX REVENUES. A NUMBER OF BUSINESSMEN HAVE TOLD US THEY ARE LOWERING THEIR PERIODIC TAX PAYMENTS ON THE BASIS OF HIGHER COSTS RESULTING FROM THE EXCHANGE RATE CHANGE. CORPORATE INCOME TAX RECEIPTS ACCOUNT FOR ABOUT 20 PERCENT OF FEDERAL GOVERNMENT REVENUES. RE PUBLIC SECTOR COMPANIES, THE INCREASED COSTS FOR WAGES AND FOREIGN DEBT SERVICE HAVE NOT YET BEEN OFFSET BY INCREASED PRICES. IN THIS REGARD, WE KEEP HEARING THAT PRICE INCREASES IN THE PUBLIC SECTOR ARE IMMINENT, ONLY TO HAVE THEM POSTPONED, MOST RECENTLY BECAUSE OF THE SECOND DEVALUATION AND THE FEAR OF THE REACTION TO SUCH PRICE INCREASES AT A TIME WHEN THE GOM IS MAKING AN EFFORT TO CONVINCE THE PRIVATE SECTOR NOT TO INCREASE PRICES AND THE LABOR UNIONS NOT TO DEMAND ANOTHER WAGE INCREASE.

4. SHOULD THE 1977 PUBLIC SECTOR DEFICIT BE IN THE RANGE OF 120-130 BILLION PESOS, IT WILL BE MORE DIFFICULT THAN EARLIER ANTICIPATED TO BRING THE 1977 DEFICIT TO 90 MILLION PESOS WHICH WOULD BE THE EQUIVALENT OF 72 BILLION 1976 PESOS, ASSUMING A 20 PERCENT PRICE DEFLATOR FOR 1977.

5. WHILE BANK OF MEXICO OFFICIALS STATEMENTS WAS INFORMAL, AND MAY NOT REFLECT THE GOM POSITION, WE ARE CONCERNED FOR SEVERAL REASONS. ONE IS THAT IT INDICATES A MORE RAPID DETERIORATION IN THE CURRENT ECONOMIC SITUATION THAN OTHERWISE EXPECTED. ANOTHER IS THAT WE HAD PRESUMED THAT THE SPECIFIC TARGETS MENTIONED IN THE FUND PROGRAM WERE OVERRIDING.

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File Mexico

MEXICAN ECONOMIC SITUATION

.....
.....
the following information concerning the economic situation in Mexico:

Based on everything gleaned from Mexican and local American contacts, President Echeverria has lost the confidence not only of the business sector as such but also of virtually everyone who has savings in Mexico. It is not believed that Echeverria can restore any degree of confidence and therefore stabilization cannot become effective as long as he remains in office. The best the Mexican Government can do under the circumstances is to slow down capital flight or at least make it more expensive. There are no immediate means of improving the psychological climate, to reverse the price spiral, to stop merchants and suppliers from hoarding, or to dispel the gloom spreading over Mexico.

It is doubtful that the Government of Mexico has any planned position in case stabilization does not work. Currency exchange controls are talked about but always with the recognition of immense difficulty of enforcement, given the long border and two-way crossings by millions of people daily. As one police official puts it: "We cannot even control illegal border crossers; how are we going to control legal travellers who carry money?" There is no doubt that exchange controls would result in immediate black market and large scale dumping of the peso. A true float of the peso, with the peso finding its own level would be very difficult, particularly with respect to keeping labor in line. In the final analysis, some form of stabilization must work, the only alternative being a rigid dictatorship which would impose its policies by force

DESTROY WITHIN 90 DAYS



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as in the Soviet Bloc. We do not foresee this for Mexico within the time frame of the next several years, but we do expect further deterioration and high inflation.

Economic policy in Mexico, like any other policy, is determined by the President. Officials may make suggestions, and President Echeverria likes long discussions with all possible options put on the table, but in the final analysis, he alone decides.

Lopez-Portillo's private secretary insists his boss is not exerting any influence at this time. Lopez-Portillo is quoted as saying that Echeverria's authority must not be diluted and that he, Lopez-Portillo, does not want a piece of an action which he cannot control. On the other hand, Echeverria and Lopez-Portillo have several private meetings each week, and it is difficult to imagine that there would be no give-and-take during these get-togethers. It cannot be estimated to what extent Echeverria may be influenced by what Lopez-Portillo says during these meetings.



DESTROY WITHIN 60 DAYS

FILE MEXICO
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CITE [REDACTED]

DIST 26 OCTOBER 1976

1.3(a)(4)

COUNTRY: MEXICO

DOI: MID-OCTOBER 1976

SUBJECT: VIEWS OF [REDACTED]

1.3(a)(4)

[REDACTED] THAT MEXICO'S
ECONOMIC SITUATION WILL CONTINUE TO DETERIORATE

SOURCE: [REDACTED]

1.3(a)(4)

SUMMARY: [REDACTED]

[REDACTED] MEXICO'S ECONOMIC SITUATION WILL
CONTINUE TO DETERIORATE. A MAJOR PROBLEM IS THE MEXICAN
PUBLIC'S LACK OF CONFIDENCE IN THE PRESENT GOVERNMENT.

1.3(a)(4)

[REDACTED] SINCE THE FLOTATION OF THE PESO,
AN AVERAGE OF US\$100 MILLION HAS LEFT THE COUNTRY EACH WEEK.

Approved for Release
Date [REDACTED]

JUL 1995

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E.O. 12356, Sec. 1.3 (2) (4)

MR 95-3 #11 CIA Dir. 7/25/95

By [REDACTED] MARGA, Date 7/23/95



NLF MR Case No. 95-3
Document No. # 11

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INFLATION IS RUNNING ABOUT 30 PERCENT AND ANOTHER DEVALUATION IS A POSSIBILITY WITHIN THE NEXT TWO TO THREE YEARS. MEXICO WOULD UNDERGO A SEVERE RECESSION IN 1977 AND PRESIDENT-ELECT JOSE LOPEZ-PORTILLO PROBABLY WOULD BE ABLE TO DO LITTLE TO STOP THE RECESSION/INFLATION SPIRAL. CRITICIZED PRESIDENT LUIS ECHEVERRIA'S HANDLING OF THE CURRENT SITUATION. TWO ADDITIONAL MAJOR PROBLEMS MEXICO WOULD BE FACING IN THE NEXT TWO YEARS: INSUFFICIENT DOMESTIC FOOD PRODUCTION AND SHORTAGE OF WATER IN MAJOR CITIES. END SUMMARY.

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1.

A BLEAK PICTURE OF MEXICO'S CURRENT AND LONG-RANGE ECONOMIC SITUATION. A MAJOR PROBLEM IS THE MEXICAN PUBLIC'S LACK OF CONFIDENCE IN THE PRESENT GOVERNMENT. SINCE THE 31 AUGUST FLOTATION OF THE PESO, AN AVERAGE OF US\$100 MILLION HAS LEFT THE COUNTRY WEEKLY. COMMENT: THIS RATE WOULD BE NEARLY DOUBLE THE CAPITAL LOSS ESTIMATED DURING THE FIRST EIGHT MONTHS OF 1976 BUT CORRESPONDS TO OTHER INFORMATION

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PAGE 3 OF 7 PAGES 1.3(a)(4)

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[REDACTED] ON THE TOPIC.) THIS AMOUNT WAS HIGHER DURING THE MID-SEPTEMBER BANK RUN WHICH WAS CAUSED BY RUMORS THAT THE GOVERNMENT INTENDED TO FREEZE BANK ACCOUNTS, BUT THE DAILY AVERAGE OF US\$20 MILLION CAPITAL OUTFLOW STILL HOLDS TRUE. PEOPLE ARE CONTINUING TO TAKE THEIR MONEY OUT OF BANKS AND ARE EITHER KEEPING IT AT HOME OR PUTTING IT INTO U.S. BANKS. [REDACTED] SINCE THE FIRST OF THE YEAR, THE NET OUTFLOW OF U.S. DOLLARS HAS BEEN OVER THE US\$1.2 BILLION LOAN MEXICO WILL RECEIVE FROM THE INTERNATIONAL MONETARY FUND (IMF). [REDACTED] COMMENT: THE US\$1.2 BILLION IMF LOAN WAS REQUESTED BY PRESIDENT LUIS ECHEVERRIA ALVAREZ TO SUPPORT THE FLOTATION OF THE PESO, [REDACTED]

1.3(a)(4)

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2. [REDACTED] EXPECTATIONS THAT MEXICO CAN PULL OUT OF THE CURRENT ECONOMIC SITUATION ARE SLIM. INFLATION IS RUNNING ABOUT 30 PERCENT ANNUALLY. AFTER THE DEVALUATION, MEXICO GAINED THEORETICALLY ALMOST 60 PERCENT OF THE WORTH OF THE PESO (IN TERMS OF INCREASED COMPETITIVENESS), AT THE END OF ONE YEAR, THE NET GAIN WILL [REDACTED]

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BE ONLY 20 PERCENT; AT THE END OF TWO YEARS (AT 30 PERCENT INFLATION), IT WILL BE MINUS 10 PERCENT; AT THE END OF THE THIRD YEAR, IT WILL BE MINUS 40 PERCENT, ETC. THUS, AT A CERTAIN POINT, THERE WILL HAVE TO BE ANOTHER DEVALUATION, JUST TO KEEP EVEN.

3. ANOTHER DEVALUATION POSSIBLY COULD OCCUR IN THE NEXT FEW MONTHS, BUT WILL CERTAINLY HAPPEN IN THE NEXT THREE TO FOUR YEARS IF STRONG ECONOMIC MEASURES ARE NOT UNDERTAKEN BY PRESIDENT-ELECT JOSE L O P E Z - P O R T I L L O.

WHILE [REDACTED] ANOTHER DEVALUATION MIGHT BE THE BEST THING FOR THE COUNTRY IN THE SHORT RUN, [REDACTED]

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[REDACTED] IT WILL NOT BE UNDERTAKEN FOR A VARIETY OF REASONS. FOR ONE, IT WOULD BE POLITICALLY UNWISE FOR LOPEZ-PORTILLO TO START HIS TERM WITH SUCH A CONTROVERSIAL MEASURE AS HE WOULD LOSE THE PEOPLE'S ALREADY SEVERELY SHAKEN CONFIDENCE AND CAPITAL FLIGHT WOULD INCREASE BEYOND WHAT IT IS NOW.

4. COMMENTING ON THE REMARKS [REDACTED] THAT MEXICO WOULD HAVE TO LIVE THROUGH TWO YEARS OF AUSTERITY,



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[REDACTED] MEXICO COULD NOT MANAGE SUCH A PROGRAM AS IT IS ALREADY FACING A SEVERE RECESSION IN 1977.

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PAGE 5 OF 7 PAGES

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MAJOR INDUSTRIES OF THE PRIVATE SECTOR IN MEXICO ARE LAYING OFF PERSONNEL IN LARGE NUMBERS. THE MOTOR INDUSTRY IS PARTICULARLY HARD HIT. THIS SITUATION HAS COME ABOUT BECAUSE OF THE VICIOUS CIRCLE CREATED BY THE DEVALUATION; ALL VEHICLES WILL HAVE TO BE INCREASED IN PRICE BECAUSE OF THE NEW PARITY WITH THE DOLLAR. THUS, FEWER PEOPLE WILL BE ABLE TO PURCHASE THESE VEHICLES. FEWER SALES MEAN FEWER PROFITS. ALSO, THE COMPANIES WILL HAVE TO SAVE MORE MONEY BECAUSE THE PESO IS WORTH LESS WHILE LABOR COSTS HAVE INCREASED. COMPANY SAVINGS AND LESS PROFITS AND FEWER SALES MEAN FEWER JOBS. FEWER JOBS MEAN MORE PEOPLE OUT OF WORK WITHOUT MONEY. THIS, IN TURN, MEANS THAT A LARGER SEGMENT OF SOCIETY WILL NOT BE ABLE TO AFFORD TO BUY OTHER ITEMS WHICH MEANS FEWER SALES OF OTHER MERCHANDISE. THE GOVERNMENT WILL HAVE TO PUMP MORE MONEY INTO THE ECONOMY FOR MORE JOBS AND SALES. MORE MONEY MEANS MORE INFLATION. HIGHER INFLATION MEANS THE PESO IS WORTH LESS.

LOPEZ-PORTILLO WILL BE ABLE TO DO LITTLE TO STOP THIS RECESSION/INFLATION SPIRAL AND HIS POLICIES TO COUNTERACT THIS PROBLEM WILL PROBABLY NOT PRODUCE THE DESIRED OR NEEDED RESULTS.

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5. [REDACTED] THE PRESENT GOVERNMENT IS HANDLING THE SITUATION POORLY. THE MAIN CAUSE OF THE PROBLEM IS PRESIDENT ECHEVERRIA WHO REFUSES TO TAKE THE ADVICE OF HIS ECONOMIC ADVISERS AND WHO CHANGES HIS MIND ON ECONOMIC POLICIES FOR THE COUNTRY FROM DAY TO DAY. [REDACTED] NOT FREEZING BANK ACCOUNTS OR ADOPTING POLICIES TO RESTRICT CAPITAL FLIGHT AT THE TIME OF THE PESO DEVALUATION WERE TWO MAJOR BLUNDERS COMMITTED BY ECHEVERRIA.

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6. [REDACTED] ONE OF ECHEVERRIA'S ECONOMIC ADVISERS SAID THAT IN TWO YEARS MEXICO WILL BE FACED WITH TWO ADDITIONAL PROBLEMS OF MONUMENTAL PROPORTIONS. FIRST, MEXICO WILL NOT RAISE SUFFICIENT FOOD FOR ITS GROWING POPULATION. IT WILL THUS HAVE TO IMPORT FOOD PRODUCTS WHICH WILL INCREASE

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IMPORTS AND WORSEN THE BALANCE OF PAYMENTS PROBLEM. SECOND, MEXICO CITY AND OTHER METROPOLITAN AREAS WILL FACE A WATER CRISIS BECAUSE RURAL SECTOR POVERTY WILL DRIVE THE PEOPLE TO URBAN CENTERS, PRIMARILY MEXICO CITY, THEREBY COMPOUNDING AN ALREADY DEFICIENT WATER SUPPLY SITUATION. SUCH CONDITIONS WILL INCREASE THE ILLEGAL IMMIGRATION OF MEXICANS INTO THE UNITED STATES.

7.

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[REDACTED]



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PAGE 01 MEXICO 13934 02 0134Z

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EO 11652: GDS
TAGS: PINT MX EGEN EFIN PFOR PINS
SUBJECT: MONTHLY POLITICAL HIGHLIGHTS: OCTOBER

POUCHED: CARACAS, GUATEMELA, MANAGUA, SAN JOSE, SAN SALVADOR,
MADRID, USUN, ALL CONSULATES IN MEXICO

REF MEXICO 12831

1. SUMMARY: EVENTS IN OCT, PARTICULARLY ECONOMIC, INDICATED THAT LONG ANTICIPATED DIMINUTION OF POWER OF OUTGOING ADMINISTRATION IS OCCURRING, BUT WITH PRES-ELECT LOPEZ PORTILLO CONSTRAINED POLITICALLY AND CONSTITUTIONALLY FROM ACTIVE ROLE, RESULT IS POWER VACUUM IN WHICH GOM IS UNABLE PROVIDE LEADERSHIP WHICH ECONOMIC SITUATION REQUIRES. GOM'S CREDIBILITY IS AT ALL TIME LOW, PUBLIC TENDING TO BELIEVE OPPOSITE OF GOM PUBLIC PRONOUNCEMENTS. THIS LACK OF CONFIDENCE LED TO FURTHER CAPITAL FLIGHTS AND SECOND DEVALUATION IN TWO MONTHS, TO MORE RUMORS, AND TO MORE OPEN CRITICISM OF PRESIDENT. WITH ONE MONTH TO GO BEFORE INAUGURATION, MEXICANS ALL HAVE FINGERS CROSSED, HOPING MEXICO WILL MAKE IT. END SUMMARY.

2. ECONOMIC SITUATION
 MEXICAN ECONOMY IN OCT REMAINED CHARACTERIZED BY CONFUSION OVER GOVT POLICIES AND LACK OF CONFIDENCE IN GOM'S ABILITY TO COPE

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PAGE 02

MEXICO 13934 020134Z

WITH CRISIS. TWO SPECIFIC DEVELOPMENTS OF NOTE WHERE REDUCTIONS IN EXPORT TAXES AND SECOND DEVALUATION. FORMER WAS APPARENTLY DECIDED BY PRESIDENT IN RESPONSE TO PRIVATE SECTOR PRESSURES. TWO DAYS LATER BANK OF MEXICO ANNOUNCED RESUMPTION OF FLOAT, RAISING PESO BUYING RATE NEXT DAY FROM 19.9 TO 26.5 PESOS PER DOLLAR. NOV. 1 RATE IS 25.58. DECISION TO RESUME FLOAT, WHICH TECHNICALLY NEVER ENDED, WAS APPARENTLY TAKEN TO STEM CONTINUING FLIGHTS OF CAPITAL. IT APPEARS THAT MEASURE REDUCED CAPITAL OUTFLOWS, BUT BY HOW MUCH IS UNCERTAIN. ONE HOPEFUL DEVELOPMENT WAS MEASURE REACTION OF LABOR, WHICH FOR MOMENT IS REFRAINING FROM MAKING NEW WAGE DEMANDS. BUT NEW RATE SENT SHIVERS DOWN SPINES OF BUSINESSMEN WITH LARGE FOREIGN DEBTS. GOM ECONOMIC OFFICIALS ARE AWARE OF CONFIDENCE PROBLEM, AND LAMENT THAT, FOR "POLITICAL REASONS", (READ ECHEVERRIA'S SENSITIVITY), PRES-ELECT JLP CANNOT COMMENT PUBLICLY ON PRESENT SITUATION. THIS MAKES NOV. LOOK LIKE ANOTHER BLEAK MONTH.

3. THERE IS NO CURRENT DATA ON ECONOMIC SITUATION, BUT WE SUSPECT THAT CAPITAL FLIGHT SINCE SEPT. 1, HAS RESULTED IN ZERO GROWTH RATE OF MONEY SUPPLY. IN LIGHT OF PRICES INCREASES SINCE THIS TIME, IT SEEMS TO US LIKELY THAT VOLUME OF TRANSACTIONS WILL DECLINE. THIS WOULD LEAD TO LOWER REAL GROWTH RATE FOR 1976 THAT 4 PERCENT BEING FORECAST BY IMF.

4 ECHEVERRIA, JLP AND INTERREGNUM
TRUE TO HIS PROMISE YEAR AGO, TO "WORK FOR MEXICO" UP TO HIS LAST MOMENT IN OFFICE, PRES ECHEVERRIA HAS BEEN CRISSCROSSING COUNTRY AS THOUGH HE WERE CAMPAIGNING, MEETING ALL NIGHT WITH CAMPESINO GROUP IN SONORA, INAUGURATING PUBLIC WORKS IN HIDALGO, BLASTING PRIVATE SECTOR IN NUEVO LEON (SEE MEXICO 13366), INSPECTING MILITARY FACILITIES AND PRAISING ARMED FORCES IN QUERETARO, AND, IN OAXACA, ACCUSING "CERTAIN SECTORS" OF TRYING TO CREATE PROBLEMS FOR JLP.

5 WHILE PRESS HAS HEADLINED THESE PRESIDENTIAL PRONOUNCEMENTS AND ACTIVITIES, THERE IS ALSO BEGINNING TO BE MORE OPEN CRITICISM OF ECHEVERRIA. FORMER PRES ALEMAN, ASKED BY REPORTERS TO CHARACTERIZE LEA ADMINISTRATION, SAID HISTORY WOULD HAVE TO BE JUDGE, COMMENT WIDELY INTERPRETED TO MEAN THAT SINCE ALEMAN HAD NOTHING NICE TO SAY, HE SAID NOTHING AT ALL. UNAM RECTOR SOBERAON CRITICIZED "BUREAUCRATIC EXPLOSION" FOR CONTRIBUTING TO GOVT DEFICIT, ECONOMIC COMMENTARY INCREASINGLY BLAMED MALADMINISTRATION AS CHIEF CAUSE OF DEVALUATION, PRIVATE SECTOR SPOKESMAN OPENLY SAID GOM'S LACK OF CREDIBILITY WAS REASON FOR CONTINUING

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PAGE 03

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CAPITAL FLIGHT, AND MONTERREY BUSINESS COMMUNITY REACTED TO ECHEVERRIA'S BLAST WITH DEVASTATINGLY HOSTILE POLITICAL ADS.

6. WHILE ECHEVERRIA HAS BEEN PLAYING WITH SYMBOLS OF POWER, JLP HAS BEEN IN VIRTUAL SECLUSION IN HIS COYOACAN HQS, CONSTITUTIONALLY AND POLITICALLY CONSTRAINED FROM EXERCISE OF POWER. DURING OCT HE APPEARED IN PUBLIC TWICE, BOTH TIMES WITH ECHEVERRIA. CONSEQUENCE IS INTERREGNUM, AT TIME WHEN MEXICO CAN ILL AFFORD IT.

7. RUMORS CONTINUE

RUMORS CONTINUED TO FLOURISH DURING OCT AND GOM CONTINUED TO TRY TO REFUTE THEM IN LOW KEY MANNER, PROBABLY REALIZING THAT DIRECT REFUTATION WOULD ONLY LEND THEM CREDENCE (FOLLOWING GOM DENIAL THAT OCT 12 BLACKOUT AFFECTING FEDERAL DISTRICT AND FIVE STATES HAD BEEN CAUSED BY SABOTAGE, MEXICANS WERE SAYING "I TOLD YOU IT WAS SABOTAGE -- THEY DENIED IT.") ALTHOUGH JLP'S CANCELLATION OF HIS PANAMA AND COLOMBIA TRIP PROBABLY WAS, AS HE SAID, DUE TO HIS WISH TO WORK ON HIS ECONOMIC PROGRAM, MANY SUGGESTED PRIVATELY THAT HE WAS AFRAID TO LEAVE COUNTRY FOR FEAR PRESIDENT WOULD SOMEHOW TAKE ADVANTAGE OF HIS ABSENCE. RUMORS ABOUT ARMY'S INTENTIONS SUDDENLY APPEARED, LEADING PRESIDENT PUBLICLY TO PRAISE ARMY'S LOYALTY AND SEMI-OFFICIAL EL NACIONAL TO DO LIKEWISE IN BOTH EDITORIALS AND CARTOONS (MEXICO 13749). VERSIONS OF THIS RUMOR VARIED, ONE SUGGESTING ARMY OFFICERS HAD THREATENED BOTH ECHEVERRIA AND JLP WITH MILITARY INTERVENTION UNLESS CERTAIN UNSPECIFIED CHANGES WERE MADE, ANOTHER VERSION (SOMEWHAT CLOSER TO TRUTH, WE SUSPECT) HAVING IT THAT MIDDLE GRADE OFFICERS HAD EXPRESSED THEIR UNHAPPINESS IN GENERAL TERMS TO MEX SECDEF CUENCA DIAZ. WITH RUMORS AND ECONOMIC SITUATION EACH ENCOURAGING OTHER, MOST MEXICANS HAVE FINGERS CROSSED, ANXIOUSLY AWAITING DEC. 1 INAUGURATION OF JLP.

8. FOREIGN AFFAIRS, MORE DISAPPOINTMENTS

DIPLOMATS, POL OBSERVERS, AND EVEN SOME FOREIGN SECRETARIAT OFFICIALS WERE TAKEN BY SURPRISE BY OCT 18 ANNOUNCEMENT OF PRES ECHEVERRIA'S AVAILABILITY FOR UN SECY GENERALSHIP. ALTHOUGH ECHEVERRIA'S DESIRE FOR POSITION WAS NO SECRET, IT HAD BEEN ASSUMED HE WOULD NOT DECLARE CANDIDACY DOOMED TO FAILURE. WHY ECHEVERRIA AND GOM APPARENTLY BELIEVE HE HAS CHANCE IS NOT CLEAR. OUTSIDE POSSIBILITY EXISTS OF PRC VETO OF ANY NON-THIRD WORLD CANDIDATE (ALTHOUGH REPORTS INDICATE THIS IS NOT SO). IT IS ALSO POSSIBLE THAT ECHEVERRIA EXPECTS, IN LOSING, TO BE OFFERED ANOTHER SENIOR UN POSITION. OR ECHEVERRIA'S DECLARATION MAY HAVE RESULTED FROM PERSONAL FRUSTRATION AT NOT HAVING BEEN

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PAGE 04

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AWARDED NOBEL PRIZE (ANNOUNCED OCT 15) AND PERHAPS UNWITTINGLY ENCOURAGED BY MEXICAN UN MISSION LACKING COURAGE TO GIVE HIM HONEST APPRAISAL OF HIS CHANCES.

9. FINAL FOREIGN AFFAIRS DISAPPOINTMENT ALMOST CERTAINLY AWAITS ECHEVERRIA. PRESIDENT HAS MADE IT CLEAR (THREE TIMES IN PAST WEEK ALONE) THAT WE WOULD LIKE TO END HIS REGIME WITH RESTORATION OF DIP RELATIONS WITH SPAIN AND SENT HIS TOP FOREIGN TRADE MAN TO RENEW TRADE RELATIONS, INTERRUPTED LAST YEAR WHEN ECHEVERRIA MOVED TO GET SPAIN OUTSTED FROM UN FOR EXECUTIVE BASQUE TERRORISTS. YET ALL REPORTS INDICATE SPAIN, STILL HIGHLY RESENTFUL OF ECHEVERRIA'S ACTIONS, WILL WITHHOLD FORMAL DIP RELATIONS UNTIL JP TAKES OFFICE ON DEC. 1.

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CITE [REDACTED]

DIST 27 OCTOBER 1976

1.3(a)(4)

COUNTRY : MEXICO
DOI : LATE OCTOBER 1976
SUBJECT : DISCREPANCIES BETWEEN VIEWS OF OUTGOING AND INCOMING ADMINISTRATIONS IN MEXICO



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1. ALTHOUGH INCOMING PRESIDENT JOSE L O P E Z P O R T I L L O WAS HANDPICKED BY PRESIDENT LUIS E C H E V E R R I A ALVAREZ AND THERE HAVE BEEN MANY SIGNS OF COOPERATION AND IDENTIFICATION BETWEEN THE TWO, IN RECENT WEEKS DIFFERENCES OF

Approved for Release Date JUL 1995 [REDACTED]

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12
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IN 081931

1.3(a)(4)

PAGE 2 OF 4 PAGES

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(classification)

OPINION, PARTICULARLY WITH RESPECT TO THE HANDLING OF ECONOMIC PROBLEMS, APPEAR TO HAVE DEVELOPED BETWEEN THE TWO MEN.

2. ASSOCIATES OF LOPEZ-PORTILLO HAVE INDICATED THAT, WHILE ECHEVERRIA REMAINS IN OFFICE, THE PRESIDENT-ELECT WILL REFRAIN FROM MAKING ANY COMMENTS WHICH COULD BE INTERPRETED AS CRITICAL OF THE PRESENT ADMINISTRATION. AT THE SAME TIME, HOWEVER, THEY ARE NOT HIDING THEIR VIEWS THAT THE ECONOMY OF THE COUNTRY HAS BEEN MISMANAGED BY ECHEVERRIA AND THAT THE CURRENT INFLATIONARY WAVE AND DRAMATIC WEAKENING OF THE PESO AFTER THE 31 AUGUST FLOTATION HAVE BEEN CAUSED PRIMARILY BY THE LOSS OF CONFIDENCE IN THE ECHEVERRIA ADMINISTRATION AND THE LATTER'S UNNECESSARY CATERING TO LABOR.

3. THOSE CLOSE TO LOPEZ-PORTILLO FEEL THAT PRESIDENT ECHEVERRIA HAS MISMANAGED BOTH THE FLOTATION OF THE PESO AND THE SUBSEQUENT HANDLING OF THE ECONOMY. THE RESULT IS THAT NONE OF THE BENEFITS WHICH COULD HAVE BEEN EXPECTED FROM FLOTATION WERE REALIZED AND THAT THE UNCERTAINTIES REGARDING THE ECONOMY ARE AS GREAT, IF NOT GREATER, TWO MONTHS AFTER THE ORIGINAL FLOTATION AS THEY WERE PREVIOUSLY.

4. SIGNIFICANT DIFFERENCES EXIST BETWEEN THE OUTGOING

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PAGE 3 OF 4 PAGES

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(classification)

AND INCOMING PRINCIPALS WITH RESPECT TO ATTITUDE TOWARD THE PRIVATE SECTOR, EMPHASIS ON FOREIGN POLICY, FOREIGN TRADE AND INFORMATION POLICY. GENERALLY SPEAKING, THE LOPEZ-PORTILLO CAMP WISHES TO CREATE CONDITIONS TO RESTORE INVESTOR CONFIDENCE WHILE AT THE SAME TIME REDUCING GOVERNMENT EXPENDITURES BY APPLYING ESSENTIALLY COMMERCIAL CRITERIA TO FOREIGN POLICY AND FOREIGN TRADE. WITH RESPECT TO INFORMATION POLICY, IT IS INTENDED TO CENTRALIZE INFORMATION GUIDANCE AND TO UTILIZE IT PRIMARILY FOR THE PROMOTION OF THE ECONOMIC OBJECTIVES OF THE GOVERNMENT.

5. LOPEZ-PORTILLO IS DETERMINED TO WITHHOLD BOTH POLICY STATEMENTS AND THE ANNOUNCEMENT OF APPOINTMENTS IN THE NEW ADMINISTRATION UNTIL 30 NOVEMBER IN ORDER TO AVOID DEROGATORY REFLECTIONS ON ECHEVERRIA. HE FEELS THAT THE PROPOSED APPOINTMENT OF CERTAIN INDIVIDUALS OR THE FAILURE TO APPOINT OTHERS WOULD BE ANALYZED AS REFLECTING DIFFERENCES IN POINTS OF VIEW. WHILE SUCH DIFFERENCES EXIST AND WILL BECOME OBVIOUS, HE DOES NOT WANT THEM PUBLICIZED AND DISCUSSED WHILE ECHEVERRIA IS STILL PRESIDENT.

6. [REDACTED]



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PAGE 4 OF 4 PAGES

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Intelligence Information Cable

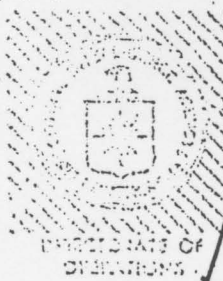
ROUTINE

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STATE/INR JCS/MC (DIA) CIA/NMCC SWS NSA TREAS NSC/S SDO NID CRS PAGE 1 OF 2 PAGES

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Classified by Reporting Officer. Exempt from General Declassification Schedule of E.O. 11652 Exemption Category 58 (1), (2) impossible to Determine Date of Automatic Declassification.



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THIS IS AN INFORMATION REPORT, NOT FINALLY EVALUATED INTELLIGENCE

NLF MR Case No. 95-3 CITE [REDACTED]

Document No. # 13

DIST 27 OCTOBER 1976

1.3(a)(4)

COUNTRY : MEXICO

DDI : LATE OCTOBER 1976

SUBJECT : POLICY GUIDELINES FOR THE INCOMING ADMINISTRATION OF PRESIDENT-ELECT JOSE LOPEZ-PORTILLO

AGG : [REDACTED]

[REDACTED]

1.3(a)(4)

SOURCE : [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

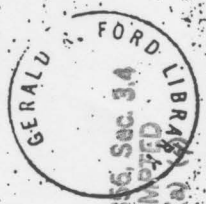
[REDACTED]

SUMMARY: [REDACTED] PRESIDENT-ELECT

JOSE LOPEZ-PORTILLO HAS OUTLINED HIS VIEWS ON A NUMBER OF POLICIES WHICH HE EXPECTS TO IMPLEMENT ON TAKING OFFICE. HE RECOGNIZES THE UNSATISFACTORY STATE OF THE MEXICAN ECONOMY AND REGARDS THE UPCOMING PERIOD AS A CRITICAL ONE DURING

Approved for Release Date JUL 1995

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 With PORTIONS EXEMPTED
 E.O. 12356, Sec. 1.3(a)

MR 95-3 # 13 CIA 17 7/28/95

5/13/88
 NARA Date
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12

IN 031747

1.3(a)(4)

PAGE 2 OF 8 PAGES

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WHICH HE WILL HAVE TO REESTABLISH PRIVATE-SECTOR CONFIDENCE IN THE GOVERNMENT. HE ALSO BELIEVES THAT THERE CAN BE NO ECONOMIC RECOVERY WITHOUT RESTORING LABOR DISCIPLINE AND PRODUCTIVITY AND WILL TAKE A HARD-LINE STAND ON LABOR POLICIES TO ACHIEVE THIS. IN LIKE FASHION, THE PROBLEMS OF UNEMPLOYMENT AND UNDEREMPLOYMENT WILL BE TACKLED. FOREIGN POLICY WILL BE REORIENTED TOWARD THE UNITED STATES AND LATIN AMERICA. TIES WITH THE THIRD WORLD WILL BE MAINTAINED, BUT THE STRESS WILL BE ON MEXICAN SELF-INTEREST. LOPEZ-PORTILLO INTENDS TO STRENGTHEN MEXICAN OFFICIAL REPRESENTATION IN THE U.S., BUT HE WILL NOT ALTER OR SURRENDER THE POSITION OF INDEPENDENCE WHICH MEXICO HAS DEVELOPED TOWARD ALL COUNTRIES, INCLUDING THE U.S. THE FORMATION OF A SECRETARIAT OF INFORMATION IS BEING CONSIDERED. IN THIS CONNECTION, A SMALL COMMITTEE IS ANALYSING THE WAYS AND MEANS TO TONE DOWN THE PROVOCATIVE HEADLINE POLICY OF MOST MEXICAN NEWSPAPERS. IT HAS BEEN EMPHASIZED, HOWEVER, THAT NO INTERFERENCE WITH THE FREEDOM OF THE PRESS IS INTENDED. END SUMMARY.



1. WHILE PRESIDENT-ELECT JOSE LOPEZ-PORTILLO WILL REFRAIN FROM MAKING ANY COMMENTS ABOUT HIS POLICIES

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13

IN 081947

1.3(a)(4)

PAGE 3 OF 8 PAGES

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PENDING HIS INAUGURATION ON 1 DECEMBER 1976, [REDACTED]

[REDACTED] LOPEZ-PORTILLO HAS OUTLINED HIS VIEWS ON A NUMBER OF POLICY ISSUES WITH THE EXPECTATION THAT HE WILL MOVE TOWARD THEIR IMPLEMENTATION IMMEDIATELY UPON TAKING OFFICE.

2. LOPEZ-PORTILLO RECOGNIZES BOTH THE UNSATISFACTORY STATE OF THE MEXICAN ECONOMY AND THE VIRTUAL IMPOSSIBILITY OF ANY DRASTIC IMPROVEMENTS WITHIN THE SHORT TERM, BY WHICH HE MEANS A PERIOD OF SIX MONTHS TO TWO YEARS FOLLOWING HIS INAUGURATION. ALTHOUGH OPTIMISTIC ABOUT MEXICO'S LONGER TERM ECONOMIC POTENTIAL, HE REGARDS THE UPCOMING PERIOD AS A CRITICAL ONE DURING WHICH HE HAS TO REESTABLISH PRIVATE-SECTOR CONFIDENCE IN THE GOVERNMENT, BUT HE MUST DO SO WITHOUT TOTALLY ANTAGONIZING ORGANIZED LABOR.

3. LOPEZ-PORTILLO FEELS THAT PRESIDENT LUIS ECHEVERRIA ALVAREZ HAS UNNECESSARILY CURRIED FAVOR WITH MEXICAN LABOR WITH THE RESULT THAT SALARY GAINS BY LABOR HAVE EXCEEDED PRODUCTIVITY. HE VIEWS THIS AS A MAJOR CAUSE OF THE LOCAL INFLATION. LOPEZ-PORTILLO HOPES TO REACH AGREEMENT WITH LABOR THAT HENCEFORTH ANNUAL WAGE INCREASES SHOULD BE IN THE 5 - 7 PERCENT RANGE, BUT HE IS FULLY AWARE



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14

IN 083547

PAGE 4 OF 8 PAGES

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THAT THERE WILL BE STRONG OPPOSITION TO THIS. HE INTENDS TO HOLD THE LINE, HOWEVER, EVEN AT THE RISK OF STRIKES AND RIOTS, AND WITH FORCE, IF NECESSARY, BECAUSE OF HIS CONVICTION THAT THERE CAN BE NO ECONOMIC RECOVERY WITHOUT RESTORING LABOR DISCIPLINE AND PRODUCTIVITY.

4. UNEMPLOYMENT AND UNDEREMPLOYMENT ARE REGARDED AS BASIC PROBLEMS, WHICH ARE AND WILL CONTINUE TO BE AGGRAVATED BY HIGH BIRTHRATES AND LACK OF ADEQUATE INVESTMENT. A STUDY GROUP HAS ADVISED LOPEZ-PORTILLO THAT ONLY ABOUT TEN PERCENT OF THE NEW WORK FORCE PER ANNUM CAN BE ACCOMMODATED WITH NEW JOBS IN INDUSTRY. THE SITUATION IS UNACCEPTABLE AND ITS LONG-TERM IMPLICATIONS ARE CATASTROPHIC. NOT ONLY MUST MORE INDUSTRIAL JOBS BE CREATED, BUT THERE MUST BE AN INTENSIFICATION OF THE AGRICULTURAL SECTOR TO PROVIDE EMPLOYMENT IN THE RURAL AREAS. THE ALTERNATIVES WOULD BE INTOLERABLE PRESSURES ON THE CITIES AND INCREASED ILLEGAL MIGRATION TO THE UNITED STATES.

5. MEXICAN FOREIGN POLICY WILL BE REORIENTED TOWARD THE UNITED STATES AND TOWARD LATIN AMERICA. LOPEZ-PORTILLO HAS SAID THAT HIS THREE MOST IMPORTANT AMBASSADORIAL APPOINTMENTS



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5

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PAGE 5 OF 8 PAGES 1.3(a)(4)

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(Institution)

WILL BE TO THE UNITED STATES, TO GUATEMALA AND TO CUBA. THE FORMER TWO, BECAUSE THEY ARE NEIGHBORS; CUBA, TO MAKE SURE IT KEEPS ITS HANDS OFF MEXICO.

6. WHILE NOT FORMALLY ALTERING OR RENOUNCING MEXICO'S NEWLY-FOUND STATUS WITH THIRD WORLD COUNTRIES, LOPEZ-PORTILLO WILL EMPHASIZE RELATIONS WITH THOSE COUNTRIES WHICH ARE IN A POSITION TO MAKE A CONTRIBUTION TO MEXICAN RECOVERY. [REDACTED]

1.3(a)(4)

[REDACTED] HE INTENDS TO MAINTAIN CORDIAL RELATIONS WITH ALL, BUT CITED THE COUNTRIES OF TANZANIA, NIGERIA, ANGOLA AND VIETNAM AS EXAMPLES WHERE THE MAINTENANCE OF MEXICAN REPRESENTATION REPRESENTS UNNECESSARY EXPENSE WITH NO CONCEIVABLE BENEFITS TO MEXICO. [REDACTED]

1.3(a)(4)

[REDACTED] THE STRESS WILL BE ON MEXICAN SELF-INTEREST.

7. THE IDEOLOGICAL FACTOR WILL BE REMOVED FROM FOREIGN TRADE. [REDACTED] AN EXAMPLE OF THE TYPE OF ACTIVITY WHICH HE WANTS TO SEE DISCONTINUED, [REDACTED] A RECENT CONTRACT WITH MOROCCO, SIGNED BY FRANCISCO A L E J O LOPEZ, SECRETARY FOR NATIONAL PATRIMONY, FOR THE PURCHASE OF FERTILIZERS AT A TOTAL PRICE NEARLY FOUR TIMES HIGHER THAN THE PRICE WOULD HAVE BEEN FOR SIMILAR FERTILIZER BOUGHT FROM THE UNITED STATES, [REDACTED]

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16

IN 081947

[REDACTED]

[REDACTED]

PAGE 6 OF 8 PAGES

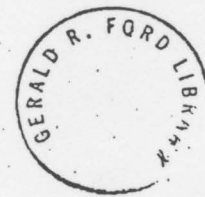
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Classification

LOPEZ-PORTILLO IS NOT INTERESTED IN DIVERSIFICATION OF FOREIGN TRADE FOR THE SAKE OF DIVERSIFICATION AND FEELS THAT THE U.S. IS BOTH THE BEST AND MOST LOGICAL TRADING PARTNER FOR MEXICO. LOPEZ-PORTILLO INTENDS TO STRENGTHEN THE MEXICAN OFFICIAL REPRESENTATION IN THE UNITED STATES, BOTH TO HELP MEXICO GET A BETTER UNDERSTANDING OF THE AMERICAN REALITIES AND TO PROMOTE MEXICAN EXPORTS IN THE UNITED STATES. JOSE CALLEAS TEGUI, UNDERSECRETARY FOR FOREIGN RELATIONS, IS MENTIONED AS THE TYPE OF AMBASSADOR HE IS SEEKING TO THE

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7

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PAGE 7 OF 8 PAGES

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9. IN EMPHASIZING CLOSE COOPERATION WITH THE UNITED STATES, LOPEZ-PORTILLO HAS MADE IT CLEAR THAT THERE CAN BE NO TURNING BACK OF THE CLOCK AND THAT HE IS NOT INCLINED TO ALTER OR RECONSIDER THE POSITION OF INDEPENDENCE WHICH MEXICO HAS DEVELOPED TOWARD ALL COUNTRIES, INCLUDING THE UNITED STATES. FOR EXAMPLE, LOPEZ-PORTILLO WILL NOT ALTER THE REQUIREMENTS FOR MEXICAN MAJORITY CONTROL OF INDUSTRIAL ACTIVITIES IN MEXICO. FOREIGN INVESTMENT, WHILE ENCOURAGED, WILL NOT BE FACILITATED BY ALTERING THE CURRENT LEGISLATIVE FRAMEWORK. LOPEZ-PORTILLO EXPECTS THAT THE FOREIGN INVESTOR WILL ACCOMMODATE TO MEXICAN GROUND RULES BUT, AT THE SAME TIME, THE GOV WILL ADHERE TO THE SAME RULES, THUS PROVIDING ASSURANCE OF SECURITY AND CONTINUITY.

10. THE INCOMING ADMINISTRATION IS KEENLY AWARE OF THE LACK OF CONFIDENCE AND EVEN CYNICISM WITH WHICH ALL SECTORS OF MEXICAN PUBLIC OPINION VIEW THE GOVERNMENT AND ITS ANNOUNCEMENTS. THIS LACK OF CONFIDENCE IS VIEWED AS INTERFERING WITH THE NORMAL FUNCTIONING OF THE ECONOMY. THE EXISTING SITUATION IS ATTRIBUTED TO THE INADEQUATE INFORMATION POLICY OF THE ECHEVERRIA ADMINISTRATION AND TO MUTUALLY EXCLUSIVE

[REDACTED]



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PAGE 8 OF 8 PAGES

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STATEMENTS ON SPECIFIC POLICY AND IMPLEMENTATION EMANATING FROM THE DIFFERENT SECTORS OF THE GOVERNMENT. THE ESTABLISHMENT OF A SECRETARIAT OF INFORMATION IS BEING CONSIDERED, ALONG WITH WAYS AND MEANS TO TONE DOWN THE PROVOCATIVE HEADLINE POLICY OF MOST MEXICAN NEWSPAPERS. IN THIS CONNECTION, LOPEZ-PORTILLO HAS APPOINTED A SMALL COMMITTEE TO ANALYZE FOUR IMPORTANT NEWSPAPERS, INCLUDING TWO U.S. PAPERS, THE LONDON "TIMES" AND THE PARIS "LE MONDE," WITH THE OBJECTIVE OF DRAWING UP CERTAIN GUIDELINES WHICH MIGHT BE SUGGESTED TO THE LEADING MEXICAN PUBLICATIONS. IT IS EMPHASIZED, HOWEVER, THAT NO INTERFERENCE WITH THE FREEDOM OF THE PRESS IS INTENDED.

11.

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--THE OCTOBER 16 REFERENDUM GAVE HIM A MANDATE TO CRACK DOWN ON BUREAUCRATIC BACKSLIDERS.

--THE PERFORMANCE OF MANY LOCAL OFFICIALS IS UNDER CLOSE SCRUTINY.

EMBASSY COMMENT: IT WOULD NOT BE SURPRISING IF, WITH THE REFERENDUM OVER, MARCOS NOW MOVES TO EASE OUT UNCOOPERATIVE GOVERNMENT OFFICIALS AND RETIRE AGING CABINET MEMBERS. BY UTILIZING A GRADUAL APPROACH, HE MAY AVOID THE STRONG BACKLASH OF RESENTMENT CAUSED BY THE SUDDEN AND BADLY-EXECUTED PURGE OF LATE 1975. (LIMITED OFFICIAL USE) MANILA 16622, 10/27.)

3. MEXICO: HINTS OF MILITARY DISCONTENT

AN AMERICAN BUSINESSMAN ALLEGED TO EMBASSY MEXICO THAT MIDDLE GRADE MILITARY OFFICERS SENT A LETTER TO DEFENSE SECRETARY CUENCA DIAZ, EXPRESSING UNHAPPINESS OVER THE STATUS OF THE MILITARY WITHIN THE NATIONAL POWER STRUCTURE. PURPORTEDLY, THE LETTER:

--WAS DEFERENTIAL IN TONE BUT VOICED CONCERN OVER CORRUPTION AND OTHER SOCIAL AND ECONOMIC PROBLEMS; AND

--DIPLOMATICALLY CONTENDED THAT THE MILITARY IS CAPABLE OF MAKING A LARGER CONTRIBUTION AND SHOULD HAVE A ROLE IN NATIONAL DECISION MAKING.

EMBASSY COMMENT: THAT SOMETHING IS ASTIR IS EVIDENT. RUMORS OF THE LETTER, WHICH DOES REFLECT THE VIEWS OF MOST MID-LEVEL OFFICERS, HAVE EMERGED FROM OTHER SOURCES. AND PRESIDENT ECHEVERRIA, ON A TOUR OF MILITARY INSTALLATIONS, PUBLICLY CONDEMNED "SMALL MINORITIES" WHO LOOK TO THE ARMED FORCES FOR REPETITION OF COUPS WHICH HAD OCCURRED IN OTHER COUNTRIES. (CONFIDENTIAL) MEXICO 13749, 10/28.)

KISSINGER

BT

#5585

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E.O. 12356, Sec. 3.4.

NR 95-1, #14 State/tr. 2/15/95

By KBH NARA, Date 2/24/95



DRAFT

MR 95-2, #15; Treasury Ltr. 3/7/96
By Lt NARA, Date 5/3/96

Date: November 3, 1976

MEMORANDUM FOR: SECRETARY SIMON

From: William N. Morell, Jr.
Special Assistant for National Security

Subject: National Intelligence Estimate (NIE) on Mexico



Embassy Mexico has prepared a lengthy and useful cable input to the NIE that the Director, Central Intelligence, is having prepared at your request. The Treasury Attache was extensively involved in the preparation of the Embassy message, the highlights of which are summarized below.

Deteriorating economic conditions in Mexico have already caused considerable social and political turbulence. Nevertheless, because of the Mexican political and social structure, the Embassy sees little threat to political stability as long as there is relative unity among key interest groups in the ruling party (PRI). Organized labor, which in recent years has been moving increasingly outside of the traditional government party structure, is the most likely source of trouble.

The Mexican industrial sector is monopolistically organized and produces a high priced product that, with few exceptions, cannot compete in the world market. Corruption and import licensing also impact to diminish the possibilities for the expansion of Mexican manufactures, even if inflation can be controlled. Removal of US import restrictions, therefore, would be of limited help to Mexican manufacturers. It is, nevertheless, anticipated that Mexico will continue to call for "special treatment" because of her status as an LDC and because of belief in a "special relationship" with the US.

The Embassy believes that the IMF has understated the severity of the economic disequilibrium in Mexico and overestimated Mexico's growth potential. Wharton forecasts a 1979 Mexican current account deficit of \$4.3 billion. Other studies point to a \$500 million deficit. (Additional analysis is obviously required.) Given Mexico's balance-of-payments problems, a fairly rigid import control system will have to be maintained. Capital reflows are not likely to be sufficient to cover requirements for the public sector, and financing for private sector investment is uncertain. President-elect Lopez-Portillo intends to restrain the rate of growth in the

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	AWLong					
Initials / Date	<i>AWL</i> / Nov 3	/	/	/	/	

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 98 (C), (S), (G), or (U) (Mark one or more)
 (unless impossible to determine)

~~SECRET~~

- 2 -

public sector but not to reduce public sector spending. Thus, the burden of adjustment will fall heavily on the private sector, and private sector confidence is the critical factor in stability and progress.

The Embassy estimates, based upon PEMEX data, that Mexico has the capacity to expand its oil output by at least 100,000 barrels per day per year for at least the next 5 years. (CIA/OER maintains that an all out development effort would allow Mexico to produce 2.7 million barrels per day and export 1.5 million in 1980.) Lopez-Portillo will probably direct a rapid expansion of oil production to help alleviate Mexico's payment problems. The Embassy notes that the US could encourage increased Mexican oil development by providing favorable Ex-Im credits, but cautions that there is little probability that foreign companies will be allowed to develop Mexican petroleum resources.

The Embassy also comments extensively on a variety of other subjects including rationalization of land reform, illegal emigration, internal political problems, cooperation in narcotics enforcement, and foreign policy. The Embassy notes that, while Lopez-Portillo's conduct of foreign policy will be characterized by a decrease in anti-US rhetoric and a softening of antagonistic public attitudes, his basic position will remain that of a Mexican nationalist and that any attempt by the US to "overembrace" him could be counter-productive.

~~SECRET~~



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 3, 1976

To Chairman Burns

Subject: Governor Baffi's testimony

From Jan W. Karcz *JK*

in the Italian Senate

The attached "Reuters" story is summarized in today's International Digest (item # 1). You may want to note the paragraph marked in red in the xeroxed copy.



1811 BAFFI SAYS ITALY CAN STILL DRAW
MLN DLRS FROM EEC:

ROME, NOV. 3 - ITALY CAN STILL DRAW 700
MLN DLRS IN SHORT-TERM FINANCIAL CREDITS FROM
THE EEC, PART OF WHICH COULD BE USED TO COVER
REPAYMENT OF 486 MLN DLRS TO BRITAIN, BANK
OF ITALY GOVERNOR PAOLO BAFFI SAID.

THE SHORT-TERM CREDITS WOULD SUBSEQUENTLY
BE CONVERTED INTO A MEDIUM TERM CREDIT LINE, EDBA
BAFFI TOLD THE SENATE FINANCE COMMISSION IN
ILLUSTRATION OF BORROWING POSSIBILITIES STILL
OPEN TO ITALY.

REUTER

THIS YEAR ITALY WILL HAVE TO PAY 1.1 BILLION
DLRS IN INTEREST ON FOREIGN LOANS, EXCLUDING
SHORT TERM COMMERCIAL BORROWINGS, BAFFI SAID.
ITALY WILL ALSO HAVE TO REPAY 548 MLN DLRS
IN MATURING EUROCURRENCY LOANS AND 826 MLN DLRS

IN REIMBURSEMENT TO THE I.M.F., BAFFI SAID.
TOTAL ITALIAN FOREIGN DEBT CURRENTLY STANDS
AT 16.3 BILLION DLRS, HE SAID.

REUTER

ITALY CAN ALSO CALL ON SHORT-TERM CREDIT
OF 750 MLN DLRS FROM THE U.S. FEDERAL RESERVE,
IN ANTICIPATION OF CONCLUSION OF A LOAN AGREE-
MENT WITH THE I.M.F., BAFFI SAID.

INFORMED SOURCE SAID A SIMILAR 750 MLN DLRS
WAS MADE AVAILABLE TO ITALY BY THE FED
EARLIER THIS YEAR, AHEAD OF CONCLUSION OF THE
E.E.C. LOAN, OF WHICH 500 MLN WAS DRAWN AND
LATER REPAYED.



NNNN

1859 : BAFFI SAYS SLEME:

OTHER LOAN POSSIBILITIES INCLUDE A FURTHER
500 MLN DLRS FROM THE BUNDESBANK, UNDER THE GOLD-

BACKED CREDIT AGREEMENT, AND AT LEAST 530 MLN
DLRS AND POSSIBLY MORE FROM THE I.M.F. W GIVEN
ITALY'S EXCEPTIONAL CIRCUMSTANCES, BAFFI SAID.

BUT NEW RECOURSE TO THE EUROMARKETS APPEARS
EXCLUDED UNDER PRESENT CONDITIONS, HE SAID.

RECOMMENDATIONS FROM THE I.M.F. AT RECENT
TALKS IN PARIS ON OBJECTIVES FOR RE-ESTABLISH-
MENT OF THE ITALIAN ECONOMY APPEARED
SUBSTANTIALLY IN LINE WITH THE GOVERNMENT'S
OWN ECONOMIC AND FISCAL POLICIES, HE SAID.

REUTER



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

November 3, 1976

To: Chairman Burns
From: Ted Truman *EMT*
Subject: Cables on Mexico

Attached are four cables that we received today from Mexico:

Mexico 13923: Possible Revision of IMF Program

Mexico 13924: Ambassador Dent's Visit to Mexico, Nov. 19

Mexico 13934: Monthly Economic and Political Highlights: October

Airgram A-28: Businessmen's Roundtable -- September 1976

cc: Governor Wallich



Defense classification of this document is due to the inclusion of U. S. Government information officially classified under Executive Order 10501 which provides that "A document . . . shall bear a classification as least as high as that of its highest classified component."

~~CONFIDENTIAL~~

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

November 3, 1976

1976 NOV -4 AM 10:37

RECEIVED
OFFICE OF THE CHAIRMAN

Subject: Cables on Mexico

Attached are four cables that we received today from Mexico:

- Mexico 13223: Possible Revision of IMF Program
- Mexico 13224: Ambassador Dent's Visit to Mexico, Nov. 19
- Mexico 13224: Monthly Economic and Political Highlights: October
- Airgram A-28: Businessmen's Roundtable -- September 1976

cc: Governor Wallach



For information of the Board, the following information is being provided to the Board of Governors of the Federal Reserve System. This information is being provided to the Board of Governors of the Federal Reserve System for their information and use.

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Department of State

TELEGRAM

CONFIDENTIAL 4422

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AUTHORITY State Dept Sys Rev 5/4/06

PAGE 01 MEXICO 13923 020058Z

BY dal NARA, DATE 2/12/15

63
ACTION EB-07

INFO OCT-01 ARA-06 ISN-00 SP-02 USIA-06 AID-05 NSC-05
CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01
L-03 H-02 PA-01 PRS-01 /081 W

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R 012333Z NOV 76
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 8357
INFO TREASURY WASHDC

~~CONFIDENTIAL~~ MEXICO 13923

Please return to
International Information Center

FU 11652: GDS
TAGS: EFIM MX
SUBJECT: POSSIBLE REVISION OF IMF PROGRAM

1. SUMMARY: IN OCT. 28 CONVERSATION, BANK OF MEXICO OFFICIAL TOLD FINATT THAT SPECIFIC TARGETS IN IMF PROGRAM IN 1977 MAY HAVE TO BE RE-NEGOTIATED. END SUMMARY.

2. IN COURSE OF CONVERSATION WITH BANK OF MEXICO OFFICIAL ON OCT. 28, FINATT ASKED WHETHER IMPACT OF RECENT DEVELOPMENTS ON THE ECONOMIC OUTCOME FOR CURRENT YEAR MIGHT NOT MAKE ATTAINMENT OF THE SPECIFIC TARGETS IN THE EFF 1977 PROGRAM MORE DIFFICULT. PARTICULAR REFERENCE WAS MADE TO THE 90 BILLION PESO BUDGET DEFICIT TARGET. OFFICIAL INDICATED THAT HE THOUGHT THIS TARGET MIGHT HAVE TO BE RENEGOTIATED, BUT THAT THE IMPORTANT TARGETS IN THE PROGRAM WERE THE RELATIONSHIPS TO GDP RATHER THAN THE SPECIFIC TARGETS SUCH AS THAT FOR 1977 PUBLIC DEFICIT.

3. BASIS FOR QUESTION IS OUR BELIEF THAT THE IMPACT OF DEVELOPMENTS IN THE FINAL FOUR MONTHS OF THIS YEAR MAY LEAD TO A HIGHER PUBLIC SECTOR DEFICIT THAN FORESEEN IN THE FUND PAPERS ON MEXICO. THE DEVALUATION IS LIKELY

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47





Department of State **TELEGRAM**

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PAGE 02

MEXICO 13923 0200582

TO HAVE A SIGNIFICANT IMPACT ON CORPORATE TAX REVENUES. A NUMBER OF BUSINESSMEN HAVE TOLD US THEY ARE LOWERING THEIR PERIODIC TAX PAYMENTS ON THE BASIS OF HIGHER COSTS RESULTING FROM THE EXCHANGE RATE CHANGE. CORPORATE INCOME TAX RECEIPTS ACCOUNT FOR ABOUT 20 PERCENT OF FEDERAL GOVERNMENT REVENUES. RE PUBLIC SECTOR COMPANIES, THE INCREASED COSTS FOR WAGES AND FOREIGN DEBT SERVICE HAVE NOT YET BEEN OFFSET BY INCREASED PRICES. IN THIS REGARD, WE KEEP HEARING THAT PRICE INCREASES IN THE PUBLIC SECTOR ARE IMMINENT, ONLY TO HAVE THEM POSTPONED, MOST RECENTLY BECAUSE OF THE SECOND DEVALUATION AND THE FEAR OF THE REACTION TO SUCH PRICE INCREASES AT A TIME WHEN THE GOM IS MAKING AN EFFORT TO CONVINCE THE PRIVATE SECTOR NOT TO INCREASE PRICES AND THE LABOR UNIONS NOT TO DEMAND ANOTHER WAGE INCREASE.

4. SHOULD THE 1977 PUBLIC SECTOR DEFICIT BE IN THE RANGE OF 120-130 BILLION PESOS, IT WILL BE MORE DIFFICULT THAN EARLIER ANTICIPATED TO BRING THE 1977 DEFICIT TO 90 MILLION PESOS WHICH WOULD BE THE EQUIVALENT OF 72 BILLION 1976 PESOS, ASSUMING A 20 PERCENT PRICE DEFLATOR FOR 1977.

5. WHILE BANK OF MEXICO OFFICIALS STATEMENTS WAS INFORMAL, AND MAY NOT REFLECT THE GOM POSITION, WE ARE CONCERNED FOR SEVERAL REASONS. ONE IS THAT IT INDICATES A MORE RAPID DETERIORATION IN THE CURRENT ECONOMIC SITUATION THAN OTHERWISE EXPECTED. ANOTHER IS THAT WE HAD PRESUMED THAT THE SPECIFIC TARGETS MENTIONED IN THE FUND PROGRAM WERE OVERRIDING.

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PAGE 01 MEXICO 13924 020101Z

AUTHORITY State Dept Exp Rev. 5/4/06

73
ACTION STR-04

BY dal NARA, DATE 2/12/15

INFO OCT-21 ARA-06 IO-13 ISO-00 STRE-00 AGRE-00 CTAF-00

CUME-00 EP-07 INR-07 LAB-04 NSAE-00 SP-02 TRSE-00

CIEP-01 FRB-03 OMB-01 L-03 /052 W

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FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 8358
INFO USMISSION MTN GENEVA

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Please Call the
International Information Center

DEPT PASS STR

EO 11652: NA
TAGS: ETRD OVIP (DENT), MX MTN
SUBJECT: AMBASSADOR DENT'S VISIT TO MEXICO

1. MARIO RODRIGUEZ, GARRIDO'S DEPUTY IN TREASURY FOR INTERNATIONAL AFFAIRS, TOLD EMB ECONOFF FRIDAY, OCT. 29, THAT MEXICAN TREASURY OFFICIALS MUCH INTERESTED IN AMB DENT HAVING LONG DISCUSSION (ONE AND ONE-HALF HOURS OR MORE) WITH MARIO RAMON BETETA, SECRETARY OF TREASURY, DURING HIS VISIT NOV. 19. MEETING SUGGESTED FOR MORNING OF NOV. 19 ABOUT 10:00 OR 10:30. EMBASSY STRONGLY CONCURS IN SUGGESTION.

2. DISCUSSION TOPICS COULD INCLUDE CURRENT MEXICAN ECONOMIC SITUATION AND EFFECT ON MEXICAN-US TRADE, SPECIAL AND DIFFERENTIAL TREATMENT FOR LDC'S VS RECIPROcity, MEXICAN VIEWS ON GATT REFORM, TP NEGOTIATIONS AND POSSIBLY SPECIAL BILATERAL TRADE PROBLEMS SUCH AS TEQUILA AND SHOES.

3. ALTHOUGH BETETA UNLIKELY TO RETAIN POSITION IN JLP ADMINSTRATION BECAUSE HIS REPUTATION HAS BEEN TARNISHED BY MEXICAN DEVALUATION HE REMAINS RESPECTED GOM OFFICIAL



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MEXICO 13924 020101Z

AND INFLUENTIAL ADVISOR OF JOP. HE SPEAKS FLUENT ENGLISH. ALSO WE NOTE TREASURY SEEMS INTERESTED IN MONOPOLYZING DENT'S TIME IN MEXICO PROBABLY TO STRENGTHEN ITS HAND WITH SECRETARIAT OF INDUSTRY AND COMMERCE AS GOM AGENCY WITH RESPONSIBILITY ON TRADE MATTERS. SINCE TREASURY TAKES MUCH BROADER VIEW OF TRADE QUESTIONS THAN SIC'S NARROW INDUSTRY-ORIENTED APPROACH WE BELIEVE IT IS IN OUR INTEREST TO DISCRETELY HELP TREASURY.

4. RODRIGUEZ ALSO SUGGESTED THAT AFTER SPEECH IN LATE AFTERNOON AMR DENT MIGHT WANT TO HAVE FOLLOWUP DISCUSSION WITH SECOND LEVEL GOM OFFICIALS SALES AND GARRIDO OF TREASURY.

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PAGE 01 MEXICO 13934 020134Z

AUTHORITY State Dept Suprw 514106
BY dal NARA, DATE 2/12/15

24
ACTION ARA-10

INFO OCT-01 TSO-00 CIAE-00 DDOE-00 PO-04 H-02 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
AID-05 COME-00 ER-07 FRP-03 TRSE-00 XMB-02 OPIC-03
CIEP-01 LAB-04 SIL-01 OMB-01 IO-13 EUR-12 /109 W
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R 020010Z NOV 75
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 8364

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Return to
International Information Center

EO 11652: GDS
TAGS: PINT MX EGEN EFIN REOR PINS
SUBJECT: MONTHLY POLITICAL HIGHLIGHTS: OCTOBER

POUCHED: CARACAS, GUATEMELA, MANAGUA, SAN JOSE, SAN SALVADOR,
MADRID, USUN, ALL CONSULATES IN MEXICO

REF MEXICO 12831

1. SUMMARY: EVENTS IN OCT, PARTICULARLY ECONOMIC, INDICATED THAT
LONG ANTICIPATED DIMINUTION OF POWER OF OUTGOING ADMINISTRATION
IS OCCURRING, BUT WITH PRES-ELECT LOPEZ PORTILLO CONSTRAINED POLI-
TICALLY AND CONSTITUTIONALLY FROM ACTIVE ROLE, RESULT IS POWER
VACUUM IN WHICH GOM IS UNABLE PROVIDE LEADERSHIP WHICH ECONOMIC
SITUATION REQUIRES. GOM'S CREDIBILITY IS AT ALL TIME LOW, PUBLIC
TENDING TO BELIEVE OPPOSITE OF GOM PUBLIC PRONOUNCEMENTS, THIS
LACK OF CONFIDENCE LED TO FURTHER CAPITAL FLIGHTS AND SECOND
DEVALUATION IN TWO MONTHS, TO MORE RUMORS, AND TO MORE OPEN
CRITICISM OF PRESIDENT. WITH ONE MONTH TO GO BEFORE INAUGUR-
ATION, MEXICANS ALL HAVE FINGERS CROSSED, HOPING MEXICO WILL
MAKE IT. END SUMMARY.

2. ECONOMIC SITUATION
MEXICAN ECONOMY IN OCT REMAINED CHARACTERIZED BY CONFUSION OVER
GOV POLICIES AND LACK OF CONFIDENCE IN GOM'S ABILITY TO COPE

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PAGE 02

MEXICO 13934 020134Z

WITH CRISIS. TWO SPECIFIC DEVELOPMENTS OF NOTE WERE REDUCTIONS IN EXPORT TAXES AND SECOND DEVALUATION. FORMER WAS APPARENTLY DECIDED BY PRESIDENT IN RESPONSE TO PRIVATE SECTOR PRESSURES. TWO DAYS LATER BANK OF MEXICO ANNOUNCED RESUMPTION OF FLOAT, RAISING PESO BUYING RATE NEXT DAY FROM 19.9 TO 26.5 PESOS PER DOLLAR. NOV. 1 RATE IS 25.58. DECISION TO RESUME FLOAT, WHICH TECHNICALLY NEVER ENDED, WAS APPARENTLY TAKEN TO STEM CONTINUING FLIGHTS OF CAPITAL. IT APPEARS THAT MEASURE REDUCED CAPITAL OUTFLOWS, BUT BY HOW MUCH IS UNCERTAIN. ONE HOPEFUL DEVELOPMENT WAS MEASURE REACTION OF LABOR, WHICH FOR MOMENT IS REFRAINING FROM MAKING NEW WAGE DEMANDS. BUT NEW RATE SENT SHIVERS DOWN SPINES OF BUSINESSMEN WITH LARGE FOREIGN DEBTS. GOM ECONOMIC OFFICIALS ARE AWARE OF CONFIDENCE PROBLEM, AND LAMENT THAT, FOR "POLITICAL REASONS", (READ ECHEVERRIA'S SENSITIVITY), PRES-ELECT JLP CANNOT COMMENT PUBLICLY ON PRESENT SITUATION. THIS MAKES NOV. LOOK LIKE ANOTHER BLEAK MONTH.

3. THERE IS NO CURRENT DATA ON ECONOMIC SITUATION, BUT WE SUSPECT THAT CAPITAL FLIGHT SINCE SEPT. 1, HAS RESULTED IN ZERO GROWTH RATE OF MONEY SUPPLY. IN LIGHT OF PRICES INCREASES SINCE THIS TIME, IT SEEMS TO US LIKELY THAT VOLUME OF TRANSACTIONS WILL DECLINE. THIS WOULD LEAD TO LOWER REAL GROWTH RATE FOR 1976 THAT 2 PERCENT BEING FORECAST BY IMF.

4. ECHEVERRIA, JLP AND INTERREGNUM TRUE TO HIS PROMISE YEAR AGO, TO "WORK FOR MEXICO" UP TO HIS LAST MOMENT IN OFFICE, PRES ECHEVERRIA HAS BEEN CRISSCROSSING COUNTRY AS THOUGH HE WERE CAMPAIGNING, MEETING ALL NIGHT WITH CAMPESINO GROUP IN SONORA, INAUGURATING PUBLIC WORKS IN HIDALGO, BLASTING PRIVATE SECTOR IN NUEVO LEON (SEE MEXICO 13366), INSPECTING MILITARY FACILITIES AND PRAISING ARMED FORCES IN QUEPETARO, AND, IN OAXACA, ACCUSING "CERTAIN SECTORS" OF TRYING TO CREATE PROBLEMS FOR JLP.

5. WHILE PRESS HAS HEADLINED THESE PRESIDENTIAL PRONOUNCEMENTS AND ACTIVITIES, THERE IS ALSO BEGINNING TO BE MORE OPEN CRITICISM OF ECHEVERRIA. FORMER PRES ALEMAN, ASKED BY REPORTERS TO CHARACTERIZE LEA ADMINISTRATION, SAID HISTORY WOULD HAVE TO BE JUDGE, COMMENT WIDELY INTERPRETED TO MEAN THAT SINCE ALEMAN HAD NOTHING NICE TO SAY, HE SAID NOTHING AT ALL. UNAM RECTOR SOBERAON CRITICIZED "BUREAUCRATIC EXPLOSION" FOR CONTRIBUTING TO GOVT DEFICIT, ECONOMIC COMMENTARY INCREASINGLY BLAMED MALADMINISTRATION AS CHIEF CAUSE OF DEVALUATION, PRIVATE SECTOR SPOKESMAN OPENLY SAID GOM'S LACK OF CREDIBILITY WAS REASON FOR CONTINUING



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PAGE 03

MEXICO 13934 020134Z

CAPITAL FLIGHT, AND MONTERREY BUSINESS COMMUNITY REACTED TO ECHEVERRIA'S BLAST WITH DEVASTATINGLY HOSTILE POLITICAL ADS.

6. WHILE ECHEVERRIA HAS BEEN PLAYING WITH SYMBOLS OF POWER, JLP HAS BEEN IN VIRTUAL SECLUSION IN HIS LOYOACAN HWS, CONSTITUTIONALLY AND POLITICALLY CONSTRAINED FROM EXERCISE OF POWER. DURING OCT HE APPEARED IN PUBLIC TWICE, BOTH TIMES WITH ECHEVERRIA. CONSEQUENCE IS INTERREGNUM, AT TIME WHEN MEXICO CAN ILL AFFORD IT.

7. RUMORS CONTINUE

RUMORS CONTINUED TO FLOURISH DURING OCT AND GOM CONTINUED TO TRY TO REFUTE THEM IN LOW KEY MANNER, PROBABLY REALIZING THAT DIRECT REFUTATION WOULD ONLY LEND THEM CREDENCE (FOLLOWING GOM DENIAL THAT OCT 12 BLACKOUT AFFECTING FEDERAL DISTRICT AND FIVE STATES HAD BEEN CAUSED BY SABOTAGE, MEXICANS WERE SAYING "I TOLD YOU IT WAS SABOTAGE -- THEY DENIED IT.") ALTHOUGH JLP'S CANCELLATION OF HIS PANAMA AND COLOMBIA TRIP PROBABLY WAS, AS HE SAID, DUE TO HIS WISH TO WORK ON HIS ECONOMIC PROGRAM, MANY SUGGESTED PRIVATELY THAT HE WAS AFRAID TO LEAVE COUNTRY FOR FEAR PRESIDENT WOULD SOMEHOW TAKE ADVANTAGE OF HIS ABSENCE. RUMORS ABOUT ARMY'S INTENTIONS SUDDENLY APPEARED, LEADING PRESIDENT PUBLICLY TO PRAISE ARMY'S LOYALTY AND SEMI-OFFICIAL EL NACIONAL TO DO LIKEWISE IN BOTH EDITORIALS AND CARTOONS (MEXICO 13749). VERSIONS OF THIS RUMOR VARIED, ONE SUGGESTING ARMY OFFICERS HAD THREATENED BOTH ECHEVERRIA AND JLP WITH MILITARY INTERVENTION UNLESS CERTAIN UNSPECIFIED CHANGES WERE MADE, ANOTHER VERSION (SOMEWHAT CLOSER TO TRUTH, WE SUSPECT) HAVING IT THAT MIDDLE GRADE OFFICERS HAD EXPRESSED THEIR UNHAPPINESS IN GENERAL TERMS TO MEXSECDEF CUENCA DIAZ. WITH RUMORS AND ECONOMIC SITUATION EACH ENCOURAGING OTHER, MOST MEXICANS HAVE FINGERS CROSSED, ANXIOUSLY AWAITING DEC. 1 INAUGURATION OF JLP.

8. FOREIGN AFFAIRS, MORE DISAPPOINTMENTS

DIPLOMATS, POL OPERATORS, AND EVEN SOME FOREIGN SECRETARIAT OFFICIALS WERE TAKEN BY SURPRISE BY OCT 18 ANNOUNCEMENT OF OF PRES ECHEVERRIA'S AVAILABILITY FOR UN SECY GENERALSHIP. ALTHOUGH ECHEVERRIA'S DESIRE FOR POSITION WAS NO SECRET, IT HAD BEEN ASSUMED HE WOULD NOT DECLARE CANDIDACY DOOMED TO FAILURE. WHY ECHEVERRIA AND GOM APPARENTLY BELIEVE HE HAS CHANCE IS NOT CLEAR. OUTSIDE POSSIBILITY EXISTS OF PRC VETO OF ANY NON-THIRD WORLD CANDIDATE (ALTHOUGH REPORTS INDICATE THIS IS NOT SO). IT IS ALSO POSSIBLE THAT ECHEVERRIA EXPECTS, IN LOSING, TO BE OFFERED ANOTHER SENIOR UN POSITION. OR ECHEVERRIA'S DECLARATION MAY HAVE RESULTED FROM PERSONAL FRUSTRATION AT NOT HAVING BEEN

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Department of State **TELEGRAM**

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PAGE 04

MEXICO 13934 020134Z

AWARDED NOBEL PRIZE (ANNOUNCED OCT 15) AND PERHAPS UNWITTINGLY ENCOURAGED BY MEXICAN UN MISSION LACKING COURAGE TO GIVE HIM HONEST APPRAISAL OF HIS CHANCES.

9. FINAL FOREIGN AFFAIRS DISAPPOINTMENT ALMOST CERTAINLY AWAITS ECHEVERRIA. PRESIDENT HAS MADE IT CLEAR (THREE TIMES IN PAST WEEK ALONE) THAT WE WOULD LIKE TO END HIS REGIME WITH RESTORATION OF DIP RELATIONS WITH SPAIN AND SENT HIS TOP FOREIGN TRADE MAN TO RENEW TRADE RELATIONS, INTERRUPTED LAST YEAR WHEN ECHEVERRIA MOVED TO GET SPAIN OUTSTED FROM UN FOR EXECUTIVE BASQUE TERRORISTS. YET ALL REPORTS INDICATE SPAIN, STILL HIGHLY RESENTFUL OF ECHEVERRIA'S ACTIONS, WILL WITHHOLD FORMAL DIP RELATIONS UNTIL JLP TAKES OFFICE ON DEC. 1.

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DEPARTMENT OF STATE

AIRGRAM

PT6 1976-0614

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DEPARTMENT OF STATE
OCT 21 AM 10:28
RRC/DA/WC

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TO: US DEPARTMENT OF STATE, WASHDC
INFO: US DEPARTMENT OF COMMERCE, WASHDC
AMEMBASSY, MEXICO CITY
AMCONSUL, GUADALAJARA

FROM: AMCONSUL, MONTERREY

Please return to
International Information Center

DATE: Oct. 12, 1976

E.O. 11652:

TAGS:

SUBJECT:

NA
EIND, MX
BUSINESSMEN'S ROUNDTABLE --SEPTEMBER, 1976

REF:



DEPT. DISTRIBUTION

ORIGIN/ACTION

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EB	EUR	INR	IO
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AGR	AID	AIR	ARMY
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FRB	HEW	INT	LAB
NAVY	NSA	NSC	OPIC
STR	TAR	TRSY	USIA
XMB			

S U M M A R Y

The latest in the series of monthly Businessmen's Roundtables was held at the Consulate General on September 30, 1976. Nine local executives joined Consul General Lambert, Commercial Officers Carter and Glass, and Branch Public Affairs Officer Niemeyer for a wideranging discussion of the business outlook in the aftermath of the peso devaluation, the labor situation in each of the companies represented, business/government relations in Mexico, and other topics. After introductory remarks by the Consul General, each of the businessmen made his presentation in turn.

DEVALUATION

Most of the companies represented were fairly well prepared for the devaluation. At the same time, the executives expressed the belief that the second order effects of the devaluation would be serious and negative.

A manufacturer of cutlery and springs confided that he had clearly foreseen a devaluation, but had been

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DRAFTED BY: ECON/COMM:THCarter/RLGlass:10/5/76 DRAFTING DATE: 10/5/76 PHONE NO. CONTENTS AND CLASSIFICATION APPROVED BY: CG:FXLambert

CLEARANCES: /mlg.

surprised by the magnitude of the parity change. Holding large, precautionary dollar balances, his firm made a "fabulous" peso profit from the float but now faces a substantial GOM tax bite on its speculative earnings. A manufacturer of chemical and refinery equipment noted that he had moved from dollar to peso-denominated obligations as early as March and took out a large peso loan in May. A manufacturer of cylinder liners said he also had kept his dollar-denominated obligations small, except for a relatively small dollar loan. A crane manufacturer happily reported that his firm's financial commitments had a dollar exposure of no more than 20,000 dollars.

LABOR RELATIONS

Labor relations were the greatest concern of the roundtable participants. Slack orders and cancellations have forced the manufacturer of cylinder liners to lay-off fifteen percent of his workforce and further lay-offs are possible. His firm now faces demands for a full 23% wage hike, after having negotiated an 18.5% increase in May. He added, however, that the 18.5% figure included some readjustments in fringe benefits such as lunch hours and transportation allowances. His firm's real labor costs rose only about 10% in May. A motel manager noted that he was presently negotiating with his workforce and that he would pay the 23% hike proposed by the GOM only if the workers agreed to a lay-off of 35 percent of his employees. The alternative to a cut in staff, he said, was to close down the motel, which has been losing money for several years. The crane manufacturer had too big an order backlog to lay-off staff but was troubled by the 23% wage hike. His firm had already boosted wages by close to 23% in June and was now faced with the GOM's de facto decree to raise salaries another 23%. He felt he had no option save to pay the 23% or face a GOM labor relations board where "the cards are stacked" against his firm. A manufacturer of farm machinery observed he was currently in the throes of negotiating a wage increase. Despite GOM sanction for a 23% increase, his workers had already lowered their demands to 12% and he intended to pay no more than 10%, even at the cost of a strike. However, the manufacturer of chemical equipment stated that he had already granted his workforce the "recommended" 23% wage raise and was reviewing an increase for his white collar workers.



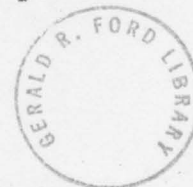
BUSINESS TRENDS

The Monterrey-based representative of a US railroad estimated that the post-devaluation volume of Mexican imports was down 70%, while export levels were unchanged. The drop in import volume was due largely to a flurry of cancellations of orders placed prior to devaluation. Some items, he opined, are of such vital importance to companies' operations that their import levels cannot be reduced. Scrap for the steel industry and silica sand for glassmakers are in these categories. He believes that business recovery will take 4-6 months --as it did after the peso devaluation in 1954.

Surprisingly, the motel manager stated that devaluation has produced no tangible benefits. He could only conclude that word has not yet reached to American tourists, who comprise 90% of his normal clientele. He does not plan to raise lodging prices (despite GOM authorization for a 20% hike) since he seeks to maximize volume. Monterrey hotel managers, he said, have organized in self-defense to boycott hotel suppliers who raise prices without justification. For example, when fish suppliers raised prices by one third, hotel kitchens stopped preparing fish dishes. Overall, business is not good and he estimates his hotel will be in the red by 3 million pesos in the current fiscal year. This will follow several years of losses, which his firm has accepted as the "price" for the opportunity of selling hotel franchises in Mexico. Since Mexicans usually seek foreign equity to go along with their hotel franchises, franchise sales have not gone well. His firm now sees better prospects in Central America.

The manufacturer of cutlery and springs had to raise prices close to 40%. He cancelled a backlog of orders to be filled at former prices. As a result, cutlery sales fell by 35% in peso value in September, but he is optimistic for a full sales recovery within 4-5 months. September sales of springs fell to 50% of normal, with some price resistance from spring consumers who are themselves subject to price controls. Management does not expect a quick recovery in demand for springs.

The manager of the company producing chemical and refinery equipment presented a brighter picture, stating that many of his orders were written with escalation clauses and that the customized nature of his products eliminated the restrictiveness of price controls.



MONTERREY
October 12, 1976

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An engineer/consultant for the plastics and diecasting industries was patently pessimistic. He knows of five pending plastics projects that have been shelved. One project may go forward, since the Mexican partner has funds in the US which he can now "safely" repatriate in the form of US machinery, using invoices pre-dated prior to devaluation. This ruse will conceal the fact that the original purpose of his deposits in the US was purely speculative. One proposed machine tool project is probably dead since it aimed at exporting 80% of its production. A 7.5% export tax, coupled with an estimated 40% wage hike over the next year, will make exports noncompetitive.

According to the plastics consultant, in-bond assembly firms are being seriously affected by the government-mandated wage raise. One such firm, he said, has moved from the Mexican to the US side of the border and has found that higher productivity more than compensates for higher US wage rates. Lack of CTM union pressures in Texas, according to him, was another gain realized by the company's move to the US.

The manager of the farm equipment firm computed that devaluation has decreased his firm's export competitiveness by 8%. He explained that local costs are up 25-30%, that GOM export subsidies Certificado de Devolución de Impuestos (CEDIs) with a 22% after-tax value are now gone, that a 6.8% export tax is now in effect, and that imported components, even with lower duties, are up 47-50%. The chemical equipment manufacturer joined in to note that his imported component costs are up 47% in terms of pesos, despite lower import duties. The manufacturer of cylinder liners noted simply that, unless CEDIs are restored, his firm just cannot quote for export sales. In addition to removal of the CEDIs, his firm's exports now face a 10.5% export tax, which, when combined with higher labor costs and increased costs for imported machinery and components, removes any incentives to export that might have arisen from the devaluation.

GOVERNMENT RELATIONS

The manufacturer of agricultural machinery is very pessimistic about his firm's future. Since agriculture in Mexico is such a politically sensitive area, his firm has been subject to rigorous price control measures, which he expects will continue at both wholesale and retail levels. In addition, he estimates that the GOM now controls 65% of the agricultural machinery sector, which means his firm is in direct competition with the GOM. He has



responded to "Mexicanization" pressures by selling 25% of his shares to a Mexican financial institution and placing 20% in escrow. He rejected a recent Nacional Financiera, S.A.'s attempt to acquire 51% equity role in his firm.

Several participants scored the GOM for being a "slow payer". The manufacturer of refinery equipment cited Petróleos Mexicanos (PEMEX) as slow to meet its obligations, but his firm has no choice but to bid on big, new PEMEX contracts. He conceded that PEMEX met its obligations quickly on international procurement since these transactions are funded out of dollar balances maintained in New York. He also noted that PEMEX was more prompt in paying for necessary repair parts than for the original items. The spring manufacturer concurred that PEMEX normally paid domestic suppliers after a 150-180 day delay; he noted that his firm simply stopped selling to the Mexican railroads as collections took 2-3 years. The manufacturer of agricultural equipment added that his firm had traditionally avoided direct sales to the slow-paying GOM and could afford to do so since there was no lack of private demand.

Executives of several firms commented on their relations with MEXINOX, a French-Mexican firm established for the eventual manufacture of stainless steel in Mexico. Until such time as production starts, MEXINOX will hold exclusive rights to import stainless steel into Mexico and the concomitant right to charge a commission on stainless steel imported for the use of other firms. The crane manufacturer noted that MEXINOX is close to a year behind schedule in starting-up production and that there were rumors that MEXINOX would lose its import monopoly. He confided that he had "persuaded" MEXINOX to import stainless steel for his firm's account by threatening to withhold supply of cranes his company is constructing for the MEXINOX plant. The manufacturer of refinery equipment volunteered that his firm had obtained limited success in obtaining GOM import licenses for stainless steel, despite MEXINOX's official monopoly. In addition, he had persuaded PEMEX to apply for stainless steel import licenses to avoid paying MEXINOX's high commissions.

The manufacturer of refinery equipment, heavily dependent on PEMEX for sales in Mexico and unsure of its export competitiveness in the wake of devaluation, is concerned about a GOM slowdown in public sector spending. Although his firm has not had any of its contracts with PEMEX cancelled, a prominent seller of tubing to PEMEX has already had at least one of its major contracts cancelled.

FH
LAMBERT



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date 11-3-76

To Chairman Burns

From Henry C. Wallich

Ted Truman said you wanted to see
this right away.



October 2, 1976

5-China
5:30 Mex
6:30 Con

TO: Chairman Burns

FROM: Edwin M. Truman

EMT

SUBJECT: Status of Mexico's Applications for Drawings
from the IMF

I. The IMF has issued two papers presenting the background material on Mexico's applications to make IMF drawings. These papers will be discussed by the IMF Executive Board on October 27. The drawings are: SDR 134 million on the first credit tranche; SDR 185 million under the Compensatory Financing Facility; and a drawing that would eventually total SDR 518 million under the Extended Fund Facility. (Mexico this week drew its SDR 98 million reserve -- gold -- tranche.)

II. The most important of these proposals is that for a drawing under the Extended Fund Facility (EFF), the actual drawings would be phased over a three-year period starting on January 1, 1977. These drawings will involve an agreed program with the IMF. The program that has already been agreed with the IMF management will have to be "ratified" by the new Mexican Government after it has taken office on December 1.

III. The objectives of the three-year EFF program are as follows.

A. Raise the investment-to-GDP ratio by at least one per cent per year over the next three years. (The ratio averaged a bit over 21 per cent in 1972-75.)

B. Reduce the public-sector deficit to 2.5 per cent of GDP by 1979. (The IMF figures show a 9.3 per cent figure for 1975 and an estimated 8.2 per cent for 1976.)

C. Follow an incomes policy directed at achieving a convergence between Mexican and U.S. nominal wage increases adjusted for productivity.

D. Reduce external public-sector borrowing to at least one per cent of GDP by 1979. (The figure for 1975 was 5.2 per cent.)



E. Follow an exchange rate policy consistent with balance-of-payments equilibrium without resorting to import restrictions and export subsidies, which have already been reduced somewhat.

IV. 1977 drawings under the EFF program would be SDR 200 million. The one-year targets associated with this three-year plan are as follows.

A. Achieve an increase in the Bank of Mexico's net international reserves that is no less than the increase in domestic currency issue. This target will be applied quarterly.

B. Public sector external borrowing in 1977 will be limited to no more than \$3,000 million compared with more than \$5,000 million in 1976. This target will be applied quarterly. An effort will also be made to lengthen the maturity of the external public debt.

C. The public sector deficit in 1977 will be limited to Mex \$90 billion compared with an estimated Mex \$88 billion for 1976. This target will be applied quarterly. The reduction in the size of the public sector deficit as a per cent of GDP will be achieved primarily through an increase in taxes and other public sector revenues. The increase in public sector employment is supposed to be less than 2 per cent.

D. Monetary policy will be conducted in a manner consistent with the reserve and budgetary targets.

E. Mexico is also pledged not to increase non-tariff barriers or impose other payments restrictions for balance-of-payments purposes.

cc: Governor Wallich

