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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

December 1, 1976

To: Chairman Burns

From: George B. Henry

Attached are the latest cables on the Mexican economic situation.

Attachments: Mexico A-315
Mexico 15058

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 at least as high as that of its highest classified component."



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AIRGRAM

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NSA	CIA	

Original to be Filed in _____ Decentralized Files.

FILE DESIGNATION

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A-315

HANDLING INDICATOR
TO : Department of State

E.O. 11652: N/A
TAGS: EINV, MX
International Information Center



FROM : Amembassy MEXICO CITY DATE: Nov. 17, 1976

SUBJECT : VW Announces they will Stay in Mexico

REF : Mexico City A-308, Nov. 10, 1976

To counter press reports from VW's German headquarters (ref airgram) and a flurry of local rumors alleging VW's imminent departure from Mexico, VW Mexico's chief executive officer, Hans Barsehki, was widely quoted in the media as announcing that VW would not leave Mexico. Nevertheless, when the Ambassador was in Puebla (the site of the VW plant) last week, the rumors of VW's withdrawal was very much in evidence. Even if Barsehki's statement is true, this still begs the question as to how VW (and the other auto makers) will handle the devaluation and labor associated problems reported in the referenced airgram. Further speculation on VW's intentions were not dampened by a Der Spiegel article carried by Excelsior November 11 which asserted VW would very much like to sell its Mexican subsidiary to the Mexican Government.

To compensate the auto industry primarily for devaluation-generated cost increases, Industry and Commerce Secretary Campillo Sainz announced on November 11 that auto prices for the 1977 models would be increased an average of 38%. This was based, he said, on Secretariat studies which showed costs to the industry had risen 35% over the year. These increases are due primarily to the increased cost of imported parts since the devaluation (about 40% of each car), and to the rising labor costs.

The Embassy will continue to monitor and report on this and other cases of apparent disinvestment as information is developed.

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Drafted by:
COML:NMBouton:lg

Drafting Date:
11/15/76

Phone No.:
724

Contents and Classification Approved by:
E/C:WAHayne

Clearances:
LAB:ANixon

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Department of State

TELEGRAM

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PAGE 01 MEXICO 15058 292131Z

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ACTION ARA-10

INFO OCT-01 ISO-00 AGPE-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 CIEP-01 TRSE-00 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 PA-01 PRS-01 H-02 L-03 OHA-02 /087 W
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AMCONSUL MAZATLAN

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LIMITED OFFICIAL USE MEXICO 15058

PASS USDA

F.O. 11652: N/A
TAGS: EAGR, MX
SUBJECT: EFFECTS OF LAND INVASIONS IN NORTHWEST MEXICO ON CROP
PRODUCTION

REF: A) HERMOSILLO 333; B) MEXICO 14922

1. ASST AGATT TRAVELED TO CIUDAD OBREGON, SONORA, NOVEMBER 17
IN ROUTE TO SAN DIEGO AND SPOKE WITH WHEAT GROWERS IN YACUT
VALLEY IRRIGATION DISTRICT. SOURCES CONFIRMED UNCERTAINTY ON
PART OF PRIVATE LANDHOLDERS (PEQUEÑOS PROPIETARIOS) REGARDING
COM ACTION THROUGH SECRETARIAT OF AGRARIAN REFORM (SRA) ON
LAND TENURE PROBLEM IN SPITE OF INJUNCTION (AMPARO) BY SUPREME
COURT. SUPREME COURT HAD STAYED ANY EXPROPRIATION OF PROPERTY
ON THE GROUNDS OF INSUFFICIENT DOCUMENTATION JUSTIFYING ILLE-
GALITY OF LAND OWNERSHIP BY SEVERAL PRIVATE LANDHOLDERS.
2. UPON ARRIVAL GENERAL MOOD OF PRIVATE LANDOWNERS WAS PES-
SIMISTIC AND ANXIOUS. INCREASED LAND OCCUPATIONS OF LAST TWO

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TELEGRAM

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PAGE 02

MEXICO 15058 292131Z

WEEKS HAD RAISED FEARS OF LAND EXPROPRIATION ANNOUNCEMENT IN LAST FEW DAYS OF ECHEVERRIA'S ADMINISTRATION IN SPITE OF QUOTE AMPARO END QUOTE BY MEXICAN SUPREME COURT. SOURCES STATED THAT MANY INDIVIDUALS TAKING PART IN THE LAND INVASIONS WERE NOT FROM SONORA OR SINALOA STATES AND WERE NOT LEGITIMATE CAMPESINOS. IN ADDITION, THEY CONFIRMED WHAT THEY CONSIDERED TO BE THE CURRENT ADMINISTRATION'S SUPPORT OF LAND OCCUPATIONS AS CONASUPO, GOVERNMENTAL FOOD SUPPLY STABILIZATION AGENCY, WAS REPORTEDLY TRANSPORTING INVADERS IN ORDER TO PARTICIPATE IN INVASIONS AND PROVIDING THEM WITH FOOD. SOME CAMPESINO GROUPS WERE ALSO REPORTEDLY ARMED WITH AUTOMATIC WEAPONS.

3. NEARLY ALL PRIVATE FARMER ORGANIZATIONS WERE CONDUCTING MEETINGS DURING THE DAY, WEDNESDAY, NOVEMBER 17. THE GENERAL MOOD WAS ONE OF ANXIETY AS A RESULT OF INCREASED INVASIONS OF PRIVATE LAND OVER THE LAST FEW WEEKS IN AND AROUND THE AREA. HOWEVER, BY THE DAY'S END THE MOOD WAS MORE OPTIMISTIC SINCE THE IMPRESSION WAS THAT THE GOM IN MEXICO CITY HAD BECOME CONCERNED BY PRIVATE FARMERS THREAT TO NOT PLANT WHEAT AND OTHER CROPS. ONE HERMOSILLO NEWSPAPER OF NOVEMBER 18, EVEN SUGGESTED POSSIBILITY THAT LANDOWNER'S SUIT AGAINST BARRA GARCIA, SRA SECRETARY, MIGHT WELL BE DECIDED IN THEIR FAVOR AND ANY AFFECTED FARMERS WHO HAD THEIR LAND EXPROPRIATED WOULD RECEIVE INDEMNIFICATION. ANNOUNCEMENT BY THE PRESIDENT NOV 19 TO OVERRIDE THE AMPARO BY PRESIDENTIAL PROCLAMATION AND EXPROPRIATING SOME 98,000 HECTARES IN SONORA THUS CAME AS A SURPRISE.

4. WHILE AGATT HAS HAD NO CONTACT WITH ABOVE MENTIONED SOURCES SINCE NOV 19, DAY OF PRESIDENTIAL PROCLAMATION OF EXPROPRIATION, OUR FEELING IS THAT PRIVATE FARMERS WILL CONTINUE THEIR WORK STOPPAGE AND REFUSAL TO PLANT, AT LEAST UNTIL SUCH TIME AS THE NEW PRESIDENT COMES INTO OFFICE AND POSSIBLE THEREAFTER. IF NEW ADMINISTRATION UPHOLDS EXPROPRIATION OF THE LANDS IN THE YAGUI VALLEY AND OTHER PRODUCTIVE IRRIGATED LANDS IN THE STATE, THERE IS NO DOUBT THAT WHEAT, SAFFLOWER AND OTHER CROP PRODUCTION WILL BE MUCH LOWER THAN NORMAL DESPITE GOM STATEMENTS TO THE CONTRARY. EJIDATARIOS--SMALL FARMERS--ARE NOT EQUIPPED TO EFFECT A QUICK PLANTING OF WHEAT ON SUCH A LARGE SCALE, EVEN WITH THE HELP OF GOM THROUGH EXTENSION PERSONNEL AND BANCO RURAL FINANCING AND TECHNICAL

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ADVISORS.

5. GIVEN THAT DECEMBER 15 IS LATEST DATE TO PLANT WHEAT IN NORTHWEST MEXICO FOR CURRENT SEASON AND HERMOSILLO ESTIMATE THAT NO MORE THAN 25 PERCENT OF THE YAQUI VALLEY IS PLANTED, WE SEE A LIKELY REDUCTION OF WHEAT PRODUCTION FOR THE CURRENT SEASON COMPARED TO LAST YEAR'S CROP BY SOME 500-700,000 TONS. SUCH AN INCREASE IN IMPORTS (LAST YEAR MEXICO WAS SELF-SUFFICIENT IN WHEAT) COULD RAISE THEIR IMPORT EXPENDITURE BY SOME 50-70 MILLION DOLLARS FOR 1977.

6. LAND INVASIONS WERE ALSO A MAJOR CONCERN AT HORTICULTURAL PRODUCERS' MEETING IN GUAYMAS NOVEMBER 19-20. THREATENED EXTENSION OF EXPROPRIATION TO SINALOA COULD ALSO HAVE ADVERSE EFFECT ON FRESH PRODUCE EXPORTS AS SUCH EXPORTS MOSTLY FINANCED BY U.S. BUYERS WITH LONG ESTABLISHED TIES TO LARGER PRODUCERS IN SINALOA WHICH SUPPLY THE BULK OF THIS TRADE. THE SITUATION IN SINALOA WAS APPARENTLY DEFUSED (OR AT LEAST POSTPONED) WITH ANNOUNCEMENT NOVEMBER 26 THAT LANDHOLDERS HAD DONATED 10,000 HECTARES OF IRRIGATED LAND (PLUS 3,500 HECTARES OF NONIRRIGATED) TO CAMPESINOS.

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TELEGRAM

CONFIDENTIAL 4459

PAGE 01 MEXICO 14956 250022Z

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ACTION SS-14

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del 7/25/07

FD 11652 : GDS
TAGS : FFIN MY
SURJ : MEXICAN ECONOMIC SITREP

PLEASE RETURN TO
INTERNATIONAL CENTER

REF : A) STATE 277224; B) MEXICO 14904

1. EXCHANGE SYSTEM. TODAY, NOVEMBER 24, DOLLAR BUYING RATE CONTINUED TO DROP. BANCO DE COMERCIO REPORTS THEY OPENED AT 25 PESOS TO BUY DOLLARS AND 23 TO SELL, BUT CLOSED AT 24 AND 21 RESPECTIVELY. HOWEVER, OFFICIAL NOTED OTHER BANKS, AND EVEN BANCO DE COMERCIO BRANCHES OUTSIDE OF MEXICO, WERE QUOTING SOMEWHAT DIFFERENTLY ALTHOUGH TENDENCY WAS THE SAME. MARKET CONTINUES TO HANDLE MOSTLY REQUESTS BY INDIVIDUALS, SOME OF WHOM TRADED LARGE AMOUNTS. STILL LITTLE CORPORATE ACTIVITY BEING NOTED. DOLLAR BUYING RATE DROPPING DUE TO DOLLAR OFFERINGS CONTINUING SOMEWHAT LARGER THAN DEMAND. BECAUSE BANKS HAVE NO GUARANTEE THAT BANCO DE MEXICO WILL BUY THE DOLLARS FROM THEM, OR THE RATE IF IT BUYS, THEY ARE TRYING TO BALANCE THEIR POSITIONS. BANCO DE COMERCIO TOOK IN A LARGE AMOUNT OF DOLLARS AT 28 PESOS EARLY MONDAY LEAVING IT VERY LONG ON DOLLARS. HOWEVER, IT HAS NOW ALMOST BALANCED ITS POSITION. INFORMANT EMPHATIC THAT BANCO DE MEXICO NOT IN THE FOREIGN EXCHANGE MARKET IN ANY MANNER.



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Department of State

TELEGRAM

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PAGE 02

MEXICO 14956 250022Z

2. OTHER ECONOMIC FRONTS. THESE ALL CONTINUE
REMARKABLY QUIET WITH NOTHING SIGNIFICANT TO REPORT.
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December 1, 1976

To: Chairman Burns
From: George B. Henry

Attached is the latest cable on the
Mexican economic situation.

cc: Governor Wallich

Attachment: Mexico 14956

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 at least as high as that of its highest classified component."



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

December 1, 1976

To: Chairman Burns

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PAGE 01 MEXICO 14956 250022Z

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ACTION SS-14

TNFO OCT-01 TSO-00 ARA-06 EB-03 SP-02 TRSE-00 NSC-05

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FD 11652 : GDS
TAGS : FFIN MY
SUBJ : MEXICAN ECONOMIC SITREP

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REF : A) STATE 277224; B) MEXICO 14904

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Department of State **TELEGRAM**

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PAGE 02

MEXICO 14956 250022Z

2. OTHER ECONOMIC FRONTS. THESE ALL CONTINUE
REMARKABLY QUIET WITH NOTHING SIGNIFICANT TO REPORT.
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1976 DEC -2 AM 11:03

RECEIVED
OFFICE OF THE CHAIRMAN

FBIS 04

MEXICO: LOPEZ-PORTILLO ANNOUNCES CABINET

FL010225 MEXICO CITY INFORMEX IN SPANISH 0147 GMT 1 DEC 76 FL

(TEXT) MEXICO CITY, 30 NOV (INFORMEX)--LIC JESUS REYES HEROLES, SECRETARY OF GOVERNMENT OF PRESIDENT LOPEZ PORTILLO, TONIGHT ANNOUNCED THE MEMBERS OF THE CABINET OF THE HEAD OF STATE WHO WILL BE INAUGURATED TOMORROW.

THE DESIGNATED OFFICIALS ARE:

SECRETARIAT OF GOVERNMENT:	LIC JESUS REYES HEROLES
SECRETARIAT OF THE PRESIDENCY:	LIC CARLOS TELLO
SECRETARIAT OF FINANCE AND PUBLIC CREDIT:	LIC JULIO RODOLFO ✓
SECRETARIAT OF AGRARIAN REFORM:	JORGE ROJO LUGO
SECRETARIAT OF TOURISM:	ARCHITECT GUILLERMO ROSELL
SECRETARIAT OF PUBLIC WORKS:	ARCHITECT PEDRO RAMIREZ VASQUEZ
SECRETARIAT OF COMMUNICATIONS AND TRANSPORT	EMILIO MUJICA MONTOYA
SECRETARIAT OF PUBLIC EDUCATION:	PORFIRIO MUNOZ LEDO
SECRETARIAT OF INDUSTRY AND COMMERCE:	FERNANDO SOLANA
SECRETARIAT OF FOREIGN RELATIONS:	LIC SANTIAGO ROEL
SECRETARIAT OF LABOR AND SOCIAL WELFARE:	LIC PEDRO OJEDA PAULLADA
SECRETARIAT OF NATIONAL DEFENSE:	GEN FELIX GALVAN
SECRETARIAT OF NAVY:	ADM RICARDO CHAZARD
SECRETARIAT OF NATIONAL PATRIMONY:	LIC JOSE ANDRES DE OTEYZA
SECRETARIAT OF HEALTH:	DR EMILIO MARTINEZ M.
SECRETARIAT OF AGRICULTURE:	FRANCISCO MERINO RABAGO
FEDERAL DISTRICT DEPARTMENT:	PROF CARLOS HANK GONZALEZ



SOCIAL SECURITY: LIC ARSENIO FARELL.

INSTITUTE OF SOCIAL SECURITY AND
SERVICES FOR GOVERNMENT WORKERS:

PROF CARLOS JONGUITUO BARRIOS

INSTITUTE OF THE NATIONAL FUND FOR
WORKERS' HOUSING:

LIC JOSE CAMPILLO SAINZ

MEXICAN FOREIGN TRADE INSTITUTE:

LIC ADRIAN MARTINEZ

REPUBLIC'S ATTORNEY GENERAL:

LIC OSCAR FLORES

FEDERAL DISTRICT ATTORNEY GENERAL:

LIC GUILLERMO SLANIS FUENTES

GOVERNMENT BASIC COMMODITIES
CORPORATION:

LIC MANUEL GONZALEZ DE COSSIO

MEXICAN PETROLEUM:

LIC JORGE DIAZ SERRA

BANK OF MEXICO: LIC GUSTAVO ROMERO COLVECK

NATIONAL FINANCIAL BANK:

LIC DAVID IBARRA

NATIONAL LOTTERY:

LIC ROBERTO DE LA MADRID

(MEXICAN GUANO):

DAVID GUSTAVO GUTIERREZ

RAILROADS:

LUIS GOMEZ Z.

RURAL BANK:

LIC A. EVERARDO ESPINO

PRIVATE SECRETARY:

LIC ENRIQUE VELASCO IBARRA

CHIEF OF PRESIDENTIAL GENERAL STAFF:

GEN MIGUEL ANGEL GODINEZ

PUBLIC WORKS AND SERVICES BANK:

PROF ENRIQUE OLIVARES SANTANA

FEDERAL ROADS AND BRIDGES:

HECTOR N. CALDERON

NATIONAL INSTITUTE FOR THE
DEVELOPMENT OF THE RURAL COMMUNITY
AND LOW COST HOUSING:

ARCHITECT LUIS N. RUVALCABA

(COBE):

LIC JUAN PEREZ ABREU

AIRPORTS:

LIC ENRIQUE LOEZA

NATIONAL COOPERATIVE DEVELOPMENT
BANK:

LIC JORGE MARTINEZ GOMEZ

(IMAN--IMPFI):

LIC MARCOS VINIO GUTIERREZ

ARID AREAS COMMISSION:

FRANCISCO GUEL JIMENEZ

4 DEC 0322Z 88/GFE



CONFIDENTIAL

December 2, 1976

TO: Chairman Burns

FROM: George B. Henry

Attached are the latest cables on the Mexican economic situation.

Attachments: Mexico A-13
Mexico A-308
Mexico A-312
Mexico 15145

cc: Governor Wallich

Reference 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 at least as high as that of its highest classified component."



AIRGRAM

760178-0346

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USIA	NSA

A-13

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NO.

HANDLING INDICATOR

TO : Amembassy MEXICO

INFO : Department of State (ARA/MEX)

E.O.11652: N/A

Please return to
International Information Center

TAGS : PINT

FROM : Amconsul CIUDAD JUAREZ

DATE: November 12, 1976

SUBJECT : Monthly Report of Developments in the
Ciudad Juarez Consular District - October, 1976

REF :

SUMMARY: 1. One of the U.S.-affiliated twin plants in Ciudad Juarez is expanding its operations here as a result of the peso devaluation and there is indication others will follow suit. There is also indication that additional twin plants will be established here. Some concern exists AFL-CIO will renew efforts to eliminate U.S. tariff advantages for twin plants with view to decreasing unemployment in U.S. 2. As a result of the devaluation of the Mexican peso and the need to increase sales of goods and services, Ciudad Juarez Chamber of Commerce, supported by large number of Juarez merchants, has launched all-out "Buy in Juarez" campaign. 3. Survey undertaken by employers sector for purpose of determining realistic minimum wage for Juarez area. END SUMMARY

1. Border Industry

While in the past some twin plants on the Mexican border have withered in the competition with assembly plants located in Asian countries, the recent peso devaluation appears to be reversing the situation. AMPEX (Cintas Magneticas, S.A.) decided to close its plant in Taiwan and transfer its operations to Ciudad Juarez on the basis of the advantage gained by the peso devaluation. The company is presently enlarging both of its plants in Ciudad Juarez and adding approximately 200 employees to its payroll.

As a result of the peso devaluation and/or increased demand

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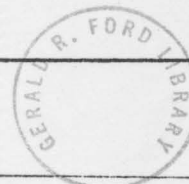
Drafted by:

PO:GShapiro: jez

Contents and Classification Approved by:

Goodwin Shapiro, Principal Officer

Clearances:



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STATE DEPARTMENT

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for their products, four other twin plants are considering expanding their operations in Ciudad Juarez. (1) Canyon de Mexico, S.A. de C.V. (a Japanese firm in joint venture with Contico International of St. Louis, Mo.). The firm manufactures spray mechanisms for spray bottles. As the controversy over aerosol sprays has spurred a trend away from aerosol cans and bottles, the firm has experienced a significant increase in the sale of its product, a non-aerosol spray mechanism. (2) TDK de Mexico, S.A. de C.V., a Japanese firm which manufactures magnets. (3) Sangamo Electrica. S.A. de C.V. which assembles capacitors. (4) Convertors de Mexico, S.A. de C.V. This firm packages disposable surgical gloves and garments for American Hospital Supply, Evanston, Ill.

Managers of the industrial parks are optimistic that, in addition to plant expansion, other twin plants will be established here because of the peso devaluation. Whereas before the devaluation twin plants were paying a minimum salary equivalent to \$6.64 per day, they are now paying slightly more than \$4.00 per day. A number of Canadian companies in the electronics and hand tools field, as well as a Spanish tool manufacturer, have sent representatives to Ciudad Juarez to study the feasibility of opening plants here.

On the other side of the coin, questions are being raised as to the effect Carter's election will have on the border industries, since Carter had the backing of the AFL-CIO which has consistently viewed the twin plants along the Mexican border as "runaway sweat shops" which take jobs from U.S. workers. It is recalled that President-Elect Carter stated in his first debate with President Ford that one of the ways to decrease unemployment in the United States "is to bring jobs back from offshore."

2. Juarez Chamber of Commerce Initiates "Buy in Juarez" Campaign

The Ciudad Juarez Chamber of Commerce has launched an all-out publicity campaign through all of the news media outlets in Juarez and El Paso to attract the buying public in both cities to take advantage of the ailing peso and shop in Juarez. All of the news media, including El Paso television, have been plugging Juarez restaurants, hotels, supermarkets, department stores and auto repair shops, where the floating peso is being accepted from 24 to 25 pesos to the dollar. Banks in both Juarez and El Paso report heavy demand for conversion of



dollars to pesos since the second devaluation. Importation of "Articulos Gancho" has dropped about 30 per cent since the second devaluation.

3. Survey Prepared for the National Commission For Minimum Wages

At the request of various local employers' and business organizations, the National Commission for Minimum Wages authorized a study to be undertaken to determine a minimum wage for the Ciudad Juarez area (Economic Zone 9) which would accurately reflect the cost of living here. The report, which was submitted to the Local Commission for Minimum Wages prior to the devaluation, recommended an increase of 10.84 per cent in the minimum wage, or 9 pesos per day, to bring the minimum wage to 92 pesos per day. As a result of the devaluation and the 23 per cent increase in wages which followed, the study was amended to recommend that minimum wages be increased by 5.78 per cent for 1977. The workers sector, however, asked that the minimum wage be increased by 40 per cent. The Local Commission for Minimum Wages has proposed that for 1977 the minimum wage in Ciudad Juarez be increased by 11 per cent. The employers' sector regards this as an excessive increase and intends to oppose the position of the Local Commission for Minimum Wages.

The study leading up to the recommended change in the minimum wage contains a number of interesting observations. For openers, the report stuns the reader by noting that the population of Ciudad Juarez has more than doubled since 1960, when the official census pegged the population at 276,000. When the survey was conducted last summer, the city's population was estimated at 573,742. The survey notes that during the last sixteen years the city's annual growth rate has been 5.74 per cent, compared with the overall Mexican population growth of 3.3 per cent. The survey directors placed the blame for this dangerous and uncontrolled growth on the never-ending migration of people from the interior of Mexico, attracted to Ciudad Juarez by the hope of better living conditions and the chance of migrating to the United States--legally or illegally. The internal migration was held to be responsible for the acute



unemployment situation in the city. The report also notes that the Juarez population contains an astounding number of young people (approximately 65.67 per cent of the population is younger than 23); that 17,570 "green card" holders (Mexicans who have been lawfully admitted to the United States for permanent residence) live in Juarez and work in El Paso, a tremendous financial impact on both cities' economy; the Mexican minimum wage has been upped eight times since 1966, and the most recent devaluation of the peso is causing pressure for still another pay increase.

SHAPIRO



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DEPARTMENT OF STATE

AIRGRAM

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FILE DESIGNATION

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A-308

HANDLING INDICATOR

TO : Department of State

E.O. 11652: N/A

TAGS: EINV, MX



International Information Center

FROM : Amembassy MEXICO CITY DATE: November 10, 1976

SUBJECT : Moves Toward Disinvestment in Mexico

DECLASSIFIED
E.O. 12958 SEC. 3.6

REF :

MK07-117 #13; dt. ltr 2/22/08

Embassy is aware of two major foreign firms (Volkswagen and Massey-Ferguson) which for various reasons are trying to reduce or have reduced their equity investment in Mexico. There may be other firms considering doing so also, not known to the Embassy.

Volkswagen

Though local Volkswagen spokesmen maintain adamantly that their efforts to dispose of 40% of their equity investment either to the Mexican Government or to Mexican private investors is no more than an attempt to follow worldwide VW policy, we understand that the VW management is thoroughly fed up with unreasonable labor demands and the resulting cost price squeeze in which automobile manufacturers find themselves in Mexico. The VW plant, in Puebla, has a radical union and was, we heard second-hand, presented with a wage increase demand following the second devaluation on October 24 on top of the earlier increases. Management also finds troublesome the GOM's requirement for ever increasing exports in order to offset import of needed automotive components. According to press reports from Wolfsburg, Germany, the parent VW firm has been obliged to make up local losses of a billion marks since 1976. The Mexican company was founded in 1964 with a 250 million mark investment. In 1969 it started to show a profit, obtained 35% of the Mexico market and exported its "Safari" to the United

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FORM 10-64 DS-323

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Drafted by:

E/C: WAHayes FIN: LPascoe

Drafting Date:

11/8/76

Phone No.:

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Contents and Classification Approved by:

E/C: WAHayes

Clearances:

COMML: GASTON

AGR: RWelton

1976 NOV 24 AM 8 16

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States. But troubles started in 1974 with inflation in Mexico and salary increases. The firm employed 11,000 persons two years ago, but let 2,000 go in 1975. Production dropped from 140,000 units to 107,000 units. This year it will not exceed 85,000 and in 1977, 75,000.

All of the above data was in the Wolfsburg story. In addition, the local German Embassy (protect) tells us that the German VW management is already looking for jobs back home and that the company is considering leaving only a skeleton staff of a Director General and a few assistants.

Massey-Ferguson

Massey-Ferguson sold 60% interest in its Mexican subsidiary to the GOM's development bank about two months ago. According to a Canadian Embassy source, the decision to take the Mexican Government as a majority shareholder was based on the belief that the GOM would probably force them to Mexicanize at some point and that it might be advantageous to take the GOM in as a partner. With GOM as a majority shareholder, many problems vis-a-vis the government can be solved more easily. Also, according to our source, Massey-Ferguson believes it will continue to be able to exercise effective management control and receive reasonable dividends.

Comment

In both cases, the decision to sell would appear to result in part from government policies. The problems of these companies are likely to discourage potential investors. Also, when Mexico is short of development capital, it seems unfortunate that the government should have to devote scarce resources to replacing private foreign capital.

JOVA
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MEXICO

P7301/9

A-312

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TO : DEPARTMENT OF STATE

E.O.111652: N/A

TAGS: ENRG EALR ETRD MX

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International Information Center

FROM : AMEMBASSY MEXICO CITY

DATE: 17 Nov 1976

SUBJECT : PETROLEOS MEXICANOS FORECAST: 1976-2000.

REF :

1. BEGIN UNCLASSIFIED. In a newspaper supplement primarily devoted to its accomplishments during the Echeverria administration, Petroleos Mexicanos outlined its projections for petroleum production, investment, and cash flow.

2. Demand for hydrocarbons (millions of Barrels of Crude and Liquid Equivalents):

Year	Consumption	Exports	Total	R/D
1976	419.6	38.9	458.5	1.22
1977	451.9	54.7	506.6	1.38
1978	486.6	54.7	541.3	1.42
1979	524.0	54.7	578.7	1.58
1980	564.3	54.7	619.0	1.69
1981	598.0	54.7	652.7	1.72
1982	633.8	54.7	688.5	1.88
1983	671.0	54.7	725.7	1.98
1984	712.1	54.7	766.8	2.10
1985	750.4	54.7	805.1	2.20
1976-85	5811.7	531.2	6342.9	

If the ratio of reserves to production is to remain 15 to 1, Pemex needs to discover 13.5 billion barrels of new reserves during the next 10 years.



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FORM 10-64 DS-323

Drafting Date: 11/11/76 Phone No.: 729
 Content's and Classification Approved by: E/C: W. Hayne

Clearances: ECON: JMOzz

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3. Projected consumption through the year 2000 is as follows:

<u>Year</u>	<u>Maximum</u>	<u>Mininum</u>
1985	750.4	750.4
1990	1043.1	779.4
1995	1470.5	1052.0
2000	2077.8	1422.8

4. Investment required in the petroleum industry in billions of constant dollars (1974). Difference depends on level of consumption shown in paragraph 3.

<u>Sector</u>	<u>1976-82</u>	<u>1983-2000</u>	
		<u>Maximum</u>	<u>Minimum</u>
Drilling	3.988	28.007	17.314
Production	.938	4.754	2.583
Refining	1.914	5.969	3.242
Petrochemicals	1.448	4.474	2.431
Transport	1.054	6.978	3.763
Social and Administration	.092	1.899	.991
Capital and Acquisitions	2.357	9.036	4.907
Exploratory Studies	1.299	5.076	3.485
Total	<u>13.003</u>	<u>56.210</u>	<u>38.785</u>

5. Cash flow in billions of constant dollars. The upper figure for each year assumes prices will be adjusted to reflect inflation. The lower figure shows results if prices remain fixed at current levels and there is a 10% rate of inflation.



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<u>Year</u>	<u>Spending</u>	<u>Income</u>	<u>Borrowing</u>
1976	4.108	3.791	.552
	4.108		.552
1977	4.422	4.175	.546
	5.852		1.976
1978	4.511	4.496	.363
	6.575		4.819
1979	4.765	4.877	.241
	7.718		2.713
1980	4.840	5.219	-.049
	8.742		5.141
1981	4.872	5.595	-.469
	9.870		5.598
1982	5.308	6.001	-.583
	12.144		9.321

END UNCLASSIFIED

6. BEGIN L.O.U. COMMENT: Pemex's projections of exports of only about 150,000 B/D seem unrealistic, given Mexico's need to expand exports to meet balance of payments deficit. The report does say that Pemex should plan investment to meet the maximum projected demand and export any difference between that and actual demand. The difference would mean additional exports of up to 722,000 B/D in 1990, 1.1 million B/D in 1995, and 1.8 million B/D in 2000.

7. Para. 5' is a strong argument against freezing the prices of petroleum products. The GOM froze prices from 1958 until 1973 and Pemex was unable to generate sufficient income to make necessary investments. If such a freeze were reimposed Pemex's ability to meet domestic demand would be in jeopardy. Such financial pinch as Pemex may feel is largely self-inflicted; the GOM collects \$5.75 excise tax on each barrel of crude exported.

JOVA
WJA





Department of State

MEXICO

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TELEGRAM

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EMT

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ACTION 89-14

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NSCE-00 FPB-21 SSO-00 CIAE-00 1032 W

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FM AMEMBASSY MEXICO
TO SECSTATE WASHDC IMMEDIATE 8949

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del 7125107
F.O. 11652: GDS
TAGS: EFIN, MX
SUBJECT: MEXICAN ECONOMIC SITREP

REF: A) STATE 277224, B) MEXICO 15058, C) MEXICO 15076,
D) MEXICO 15064

1. EXCHANGE SYSTEM. PESO CONTINUES TO RISE IN VALUE. YES-
TERDAY, NOV 29, BUYING RATE FOR DOLLARS DROPPED FROM 23 TO
22 PFSOS AND THEN FINALLY CLOSED AT 21.75. OPENED AT 21.50
TODAY. SEE RFFTEL D FOR DESCRIPTION OF OPERATION OF FOREIGN
EXCHANGE MARKET.

2. OTHER ECONOMIC FRONTS. FAPE INCREASES VARYING FROM 20 TO
30 PERCENT WERE DECREED FOR BUSES, DOMESTIC AIRLINES, AND
RAILROADS. THE FEDERAL ELECTRICITY COMMISSION (CFE) DENIED
CHARGES THAT IT WAS BANKRUPT. IT CLAIMED ITS ASSETS SHOULD
BE ASSESSED AT CURRENT VALUE RATHER THAN ORIGINAL VALUE HENCE
COVERING ITS ADDED PESO LIABILITIES. IT DID NOT, HOWEVER,
SAY ANYTHING ABOUT DEPRECIATION ALLOWANCES. AS NOTED BEFORE,
MOST FIRMS AND FINANCIAL INSTITUTIONS, INCLUDING EVEN GOV-
OWNED NACIONAL FINANCIERA AS WELL AS CFE, BECAME ECONOMIC-
ALLY INSOLVENT AS THE INCREASE IN VALUE OF THEIR DOLLAR
LIABILITIES PROBABLY WIPED OUT THEIR CAPITAL AND RESERVES.
THIS IS NO PROBLEM FOR GOV-OWNED INSTITUTIONS AS THE GOV CAN

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PAGE 02

MEXICO 15145 310023Z

WRITE UP THEIR CAPITAL AND HENCE JACK UP THE MONEY SUPPLY. THIS WILL ADD TO INFLATIONARY PRESSURES. HOWEVER, PRIVATELY OWNED FIRMS DO NOT HAVE ACCESS TO THE PRINTING PRESS AND NEED RELIEF FROM THEIR BANKERS. THE GOM ANNOUNCED YESTERDAY THAT IT WILL ALSO HELP THEM BY ALLOWING THEM TO DEDUCT FROM TAXES THE LOSSES THEY SUFFERED FROM THE FIRST DEVALUATION. HOWEVER, TO EXTENT THIS IS EFFECTIVE FOR THE FIRMS GOM REVENUES WILL BE REDUCED, ADDING TO GOM DEFICIT AND CONSEQUENT INFLATIONARY PRESSURES. SEE FEETELS C AND D FOR DESCRIPTION OF AGRICULTURAL SITUATION DUE TO LAND INVASIONS.

3. RUMORS WE HEAR RUMORS ARE CIRCULATING WITHIN MILITARY ESTABLISHMENT THAT IMMEDIATELY AFTER DEVALUATION JEP WILL FIX THE VALUE OF THE PESO AT 20 TO THE DOLLAR. SUCH RUMORS COULD BE CONTRIBUTING TO STEADY SALE OF DOLLARS FURTHERING AN EXCHANGE RATE.

4. APPOINTMENTS. LATE TODAY LOPEZ PORTILLO IS SCHEDULED TO ANNOUNCE APPOINTMENTS TO MAJOR GOM POLITICAL POSITIONS. HOWEVER, WE NOW KNOW THAT NEW BANK OF MEXICO DIRECTOR GENERAL WILL BE GUSTAVO ROMERO KOLBECK, WHO OCCUPIED SIMILAR POSITION AT GOM DEVELOPMENT BANK, NATIONAL FINANCIERA. ROMERO IS CONSIDERED TO BE REASONABLY CLOSE TO LOPEZ PORTILLO THROUGH THEIR COMMON TEACHING EXPERIENCE, THOUGH IN DIFFERENT FIELDS. ROMERO IS AN ECONOMIST, BUT NOT A BANK-OF-MEXICO-TRAINED ECONOMIST. HE IS PLEASANT, SPEAKS ENGLISH, BUT IS NOT A PARTICULARLY STRONG INDIVIDUAL. HE PROBABLY OWES HIS NEW JOB MORE TO FRIENDSHIP THAN TO HIS STATURE IN THE FINANCIAL WORLD. THE SENIOR BANK OF MEXICO STAFF WAS MEETING WITH ROMERO THIS MORNING. THEIR FUTURE IS UNCERTAIN, BUT MOST ARE LIKELY TO STAY. THE BANK OF MEXICO WAS A SAD SPOT THIS MORNING AS FERNANDEZ-HURTADO WAS HIGHLY REGARDED. THE STAFF BELIEVES HE WAS MADE A SCAPEGOAT FOR PROBLEMS THAT WERE NOT OF HIS OWN DOING. HE DOES NOT APPEAR TO BE GETTING ANOTHER JOB, BUT IS ELIGIBLE FOR A BANK OF MEXICO PENSION.

JOVA

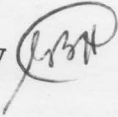
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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

December 3, 1976

To: Chairman Burns

From: George B. Henry 

Attached are the latest cables on the Mexican economic situation.

Attachments: Mexico 15169
Mexico 15184

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 at least as high as that of its highest classified component."





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TNFO OCT-01 ISO-00 AID-05 CIAE-00 CONE-00 EB-07 FRB-03
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 LAB-04 SIL-01 OMR-01 NSC-05 SS-15 STR-04 CFA-01
 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 NSCF-00 SSO-00
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 FM AMEMBASSY MEXICO
 TO SECSTATE WASHDC IMMEDIATE 8964
 TNFO ALL US CONSULATES IN MEXICO VTA POUCH

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F. O. 11652: N/A
 TAGS: EGEN, MX
 SUBJECT: ECONOMIC ASPECTS OF LOPEZ PORTILLO'S INAUGURAL ADDRESS
 REF: A) MEXICO 15168; B) MEXICO 15157

1. SUMMARY. TO THE EXTENT THAT WORDS CAN RESTORE CONFIDENCE, PRESIDENT LOPEZ PORTILLO'S INAUGURAL SPEECH OF DEC. 1 SHOULD HELP. HE SET FORTH A SERIES OF MEASURES TO HELP MEXICO'S BALANCE OF PAYMENTS, INVESTMENT, AND SAVINGS. HE PLEDGED CONTINUED FREE CONVERTIBILITY. END SUMMARY.

2. TO MEET THE IMPERATIVE NEED TO REESTABLISH ECONOMIC CONFIDENCE IN MEXICO, LOPEZ PORTILLO'S CHOICE OF CABINET MINISTERS AND HIS INAUGURAL ADDRESS HAD BEEN EAGERLY AWAITED AS THE TWO MOST IMMEDIATE INDICATIONS OF THE DIRECTION IN WHICH HE WOULD SEEK TO GUIDE THE MEXICAN ECONOMY. HIS CHOICES OF MINISTERS WHICH WERE ANNOUNCED LAST NIGHT (REFTEL A), LEAVE US WITH SOME RESERVATIONS (BEING REPORTED SEPTTEL). WE GIVE HIM HIGH MARKS, HOWEVER, FOR HIS INAUGURAL ADDRESS (REFTEL B). THE MAIN ECONOMIC POINTS ARE SUMMARIZED IN THE FOLLOWING

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PAGE 02

MEXICO 15169 020203Z

PARAGRAPHS.

3. EXCHANGE RATE AND SYSTEM: CONTRARY TO SOME PREVIOUS EXPECTATIONS, JLP NEITHER ANNOUNCED A NEW PESO/DOLLAR PARITY NOR PROMISED TO ESTABLISH

ONE IN THE FUTURE. HE DEVOTED AN IMPRESSIVE AMOUNT OF TIME TO EDUCATING THE PUBLIC ON THE REAL MEANING OF DEVALUATION. EFFORTS

WOULD BE MADE TO DESIGN MEASURES TO DISCOURAGE CAPITAL FLIGHT.

4. BALANCE OF PAYMENTS: NO DIRECT MENTION WAS MADE OF MEXICO'S OVERWHELMING FOREIGN DEBT, BUT JLP PROMISED THAT BORROWING ABROAD BY THE PUBLIC SECTOR WOULD HENCEFORTH BE LIMITED FOR CAPITAL GOODS ONLY. MEASURES AFFECTING THE PRIVATE SECTOR WERE LESS SPECIFIC, BUT IT APPEARS THAT MOVES WILL BE MADE TO SUBSTITUTE TARIFF PROTECTION FOR IMPORT QUOTAS. ATTENTION WILL BE GIVEN TO INCREASING LABOR INTENSIVE AGRICULTURAL EXPORTS.

5. MONETARY POLICY: THERE WAS LITTLE DISCUSSION PER SE, BUT THE "DOLLARIZATION" OF THE MEXICAN ECONOMY WAS DESCRIBED AS A THREAT TO MEXICAN SOVEREIGNTY. TWO INTERESTING PROPOSALS WERE MADE FOR THE CREATION OF "STORE OF VALUE" INSTRUMENTS, PRESUMABLY TO WEAN MEXICANS AWAY FROM HOLDING DOLLARS. ONE PROPOSAL CALLS FOR THE MINTING OF TRADITIONAL MEXICAN SILVER COINS WHICH HE CALLED "OUR STRONG PESOS". THE OTHER PROPOSAL IS FOR THE ISSUANCE OF NEW LONG-TERM

BONDS BACKED BY THE PRODUCTION OF BASIC RAW MATERIAL AND LINKED TO THE WORLD MARKET PRICE OF SILVER AND OIL. JLP MADE SOME INTERESTING COMMENTS WHICH SEEMED TO AFFECT THE FUTURE ABILITY OF STATE GOVERNMENTS TO BORROW ON THEIR OWN.

6. INVESTMENT POLICY: THE PRESIDENT SAID THAT THE GOM WOULD SEEK TO ORIENT INVESTMENT TO THE FOLLOWING PRIORITIES OF SECTORS: AGRICULTURE AND LIVESTOCK, ENERGY, PETROCHEMICALS MINING, STEEL, CAPITAL GOODS, TRANSPORTATION AND BASIC CONSUMER GOODS. HE SEEMED TO MAKE A MUTED CALL FOR MORE FOREIGN INVESTMENT.

7. TAX POLICY: TAX RATES SHOULD BE ADJUSTED FOR INFLATION. PROGRESSIVE TAXATION OF INCOMES WILL BE REINSTATED. IN AN EFFORT TO ENCOURAGE REINVESTMENT OF EARNINGS, HIGHER TAXES WILL BE APPLIED TO COMPANIES' DISTRIBUTED PROFITS. EMPHASIS WAS

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TELEGRAM

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MEXICO 15169 020203Z

GIVEN TO ADMINISTRATIVE REFORM. THE PRESIDENT APPEARED TO OPEN THE DOOR FOR A FORM OF REVENUE SHARING WITH STATES.

8. WAGES AND PRICES: THE PRESIDENT STRESSED THAT HE WISHED TO AVOID FURTHER PETERIORATION OF INCOME DISTRIBUTION. SALARIES SHOULD BE TIED TO AN IMPROVED COST OF LIVING INDEX WHICH SHOULD BE DEVELOPED. STRONG EFFORTS SHOULD BE MADE, HOWEVER, TO CONTROL INFLATION. A SYSTEM WILL BE PROPOSED TO GIVE SALARY INCREASES FOR INCREASED PRODUCTIVITY, BUT SUCH INCREASES ARE TO BE CHANNLED PARTIALLY OR WHOLLY TOWARD SHARES SUCH AS THE CAPITAL STOCK OF PROPOSED JOINT WORKERS INVESTMENT BANK. THE PRESIDENT DEMONSTRATED A GOOD GRASP OF BASIC RELATIONSHIP AMONG WAGES, COSTS AND PRICES.

9. ADMINISTRATIVE REFORMS: THE PRESIDENT PROPOSED THREE NEW LAWS WHOSE

AFFECT ON THE ECONOMY IS PRESENTLY HARD TO ASSESS. A GOVERNMENT EXPENDITURE LAW IS TO GIVE PROGRAMMATIC ORIENTATION TO GOM EXPENDITURES. A SINGLE MINISTRY IS TO BE PLACED IN CHARGE OF BUDGET AND PUBLIC EXPENDITURES. NOTE: THIS SEEMS TO BE DESIGNED AFTER THE USG'S OMB AND MAY REFLECT THE EARLIER EFFORTS OF THE EMBASSY AND OMB TO RESPOND TO EXTENSIVE REQUESTS ON HOW OMB OPERATES. A PUBLIC DEBT LAW WOULD SEEK TO GIVE THE MEXICAN CONGRESS BETTER CONTROL OVER THE EXECUTIVE EXPENDITURES, PARTLY BY MAKING MORE INFORMATION AVAILABLE TO THE PUBLIC ON THE GOM'S PUBLIC DEBT. THE ADMINISTRATION ORGANIZATION LAW SETS FORTH THE CHANGES DEMANDED IN SECTORIAL STRUCTURE AND RECLASSIFIES GOVERNMENT MINISTRIES.

10. AGRICULTURAL POLICY: THIS SECTION WAS WEAKER THAN WE HAD EXPECTED. THE PRESIDENT GAVE EMPHASIS TO MEXICO'S SEEKING SELF SUFFICIENCY IN FOOD. ATTENTION IS TO BE PAID TO TECHNICAL AND SOIL RESEARCH IN TROPICAL AGRICULTURAL LANDS. THE PRESIDENT'S FUTURE POLICY ON AGRICULTURAL REFORM DID NOT COME THROUGH CLEARLY. HE STATED THAT "LAND REFORM IS MEXICO".

11. INDUSTRIAL DEVELOPMENT: JLP SAID HE WOULD PLACE PARTICULAR EMPHASIS ON STIMULATING AGRO-INDUSTRY, MINING, AND THE STEEL INDUSTRY BY "GIVING SUPPORT TO SMALL AND MEDIUM-SIZED INDUSTRIAL AND MINING OPERATIONS". HE WOULD IMPROVE UPON "SIMPLE IMPORT-SUBSTITUTION POLICIES BY INSTITUTING PROGRAMS FOR VERTICAL INTEGRATION

IN SPECIFIC FIELDS." A SPECIALIZED MINISTRY WILL BE SET UP TO

HANDLE INDUSTRIAL DEVELOPMENT

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ACTION EB-07

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COME-00 INR-07 LAB-04 NSAE-00 SP-02 STR-04 TRSE-00
CIEP-01 FRB-03 OMB-01 SSO-00 INRE-00 USIE-00 NSCE-00
OIC-02 L-03 /060 W

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O R 022056Z DEC 76 ZFF-4
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC IMMEDIATE 8970
INFO AMEMBASSY GUATEMALA
AMEMBASSY MANAGUA
AMEMBASSY PANAMA
AMEMBASSY PORT AU PRINCE
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EO 11652 : N/A
TAGS : EAGR, ETRD, MX
SUBJ : MEAT IMPORT PROGRAM

REF : A) STATE 2900451 B) STATE 293203

1. EMBASSY FEELS STRONGLY THAT DEC 6 DEADLINE FOR SUBJECT CONSULTATIONS IS UNREALISTIC FOR MEXICO. NEW CABINET JUST APPOINTED YESTERDAY AND WE DO NOT YET KNOW IF KEY OFFICIALS FAMILIAR WITH IMPORT PROGRAM WILL CONTINUE IN OFFICE.

2. AGATT DELIVERED ESSENTIAL ELEMENTS OF REF (A) TO RAMOS ON

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NOVEMBER 30 AND CHECK TODAY REVEALS THEY HAVE NOT YET FOCUSED ON THE MATTER. THEY WOULD PREFER CONSULTATIONS AT LATER DATE TO HAVE BETTER IDEA OF ACTUAL SHIPMENTS IN 1976. EMBASSY FEELS WE SHOULD GIVE THEM AS MUCH TIME AS POSSIBLE SO AS NOT TO GIVE IMPRESSION THAT WE ARE PUSHING NEW TEAM INTO AGREEMENT BEFORE THEY HAVE THEIR FEET ON THE GROUND.

3. WE CONTINUE TO ESTIMATE 1977 SHIPMENTS AT 60.0 MILLION POUNDS WITH POSSIBILITY THAT ESTIMATE MAY BE CONSERVATIVE IN VIEW OF PESO DEVALUATION. RECENT SHIPMENTS HAVE BEEN AT WEEKLY RATE OF 2.0 MILLION POUNDS.

JOVA

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December 6, 1976

TO: Chairman Burns

FROM: Ted Truman

EMT

Attached is the latest cable on the Mexican economic situation.

Attachment: Mexico 15287

cc: Governor Wallich

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ACTION ARA-10

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CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-01
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01
L-03 H-02 PA-01 PRS-01 /085 W

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R 032355Z DEC 76
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9013
INFO TREASURY WASHDC

~~CONFIDENTIAL~~ SECTION 1 OF 2 MEXICO 15287

dal 7/25/07
E. O. 11652: GDS
TAGS: EFIN MX
SUBJECT: MEXICAN INTEREST RATES

1. IN SPITE OF THE ALMOST 50 PERCENT DEVALUATION OF THE PESO, MEXICAN DEPOSIT INTEREST RATES HAVE NOT BEEN CHANGED. DEPOSIT INTEREST RATES ARE FIXED BY THE CENTRAL BANK AND THERE IS NO COMPETITION BETWEEN BANKS. LENDING INTEREST RATES ARE ALSO FIXED BY THE BANK OF MEXICO, BUT THERE IS MORE ROOM FOR COMPETITION BY VARYING COMPENSATING BALANCE REQUIREMENTS. THE REASONABLY STABLE LENDING RATES CANNOT POSSIBLY CLEAR THE MARKET WHEN INFLATION IS RUNNING 25 TO 35 PERCENT, AND LIKELY TO REMAIN IN THIS RANGE FOR AT LEAST A YEAR. PRESIDENT LOPEZ-PORTILLO HAS CALLED FOR A RESTRUCTURING OF INTEREST RATES, AND PROPOSED OTHER INNOVATIONS AIMED AT SLOWING THE "DOLLARIZATION" OF MEXICO.

2. THE BANK OF MEXICO HAS BEEN UNWILLING TO LET DEPOSIT INTEREST RATES FLOAT, OR TO ADJUST THESE RATES TO A LEVEL THAT WOULD GIVE DEPOSITORS A REAL RETURN ON THEIR INVESTMENTS IN FIXED-TERM DEPOSITS.

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3. THE TRADITIONAL ALLEGIANCE TO FIXED INTEREST RATES IS APPARENTLY VIEWED BY THE BANK OF MEXICO AS A SIGN OF FINANCIAL STABILITY. THIS IS NOT NECESSARILY VIEWED THE SAME BY THE PUBLIC AS THEY HAVE BEEN MOVING FROM LONGER TIME DEPOSITS TO THE MORE LIQUID INTEREST BEARING DEPOSITS, AND/OR INTO DOLLARS. PESO TIME DEPOSITS MAY NOT INCREASE THIS YEAR, BUT EVEN HOLDING THESE DEPOSITS AT END-1975 LEVELS WOULD BE AN ACCOMPLISHMENT OF SORTS.

4. INTEREST RATES ON THE MOST LIQUID POPULAR SAVINGS INSTRUMENT (FINANCIAL BONDS) PAY 7.5 PERCENT INTEREST ANNUALLY AND CAN BE REDEEMED UPON DEMAND. THIS IS A DECLINE FROM THE 8.75 INTEREST PAID ON THESE INSTRUMENTS IN DECEMBER 1974. THE HIGHEST RATE OF INTEREST PAID BY FINANCIAL INSTITUTIONS IS 12 PERCENT, NET OF WITHHOLDING TAX ON CERTIFICATES OF DEPOSIT WITH SIX-MONTH MATURITIES AND IN DENOMINATIONS OF ONE MILLION PESOS OR MORE. THESE INSTRUMENTS PAID 11.5 PERCENT IN DECEMBER 1975; THE RATE DROPPED TO 10.75 PERCENT IN JANUARY 1976 AND WAS INCREASED TO THE PRESENT LEVEL IN MID-AUGUST 1976. THE RATE FOR FINANCIAL BANKS DID NOT INCREASE AT THIS TIME.

5. IN LIGHT OF A CURRENT RATE OF INFLATION OF 35 PERCENT, WITH THE PROSPECT OF A RATE OF 30 PERCENT CONTINUING THROUGH MOST OF 1977, IT MAY BECOME INCREASINGLY DIFFICULT TO ATTRACT OR EVEN HOLD PESO TIME DEPOSITS. THE RESULT COULD BE AN INCREASING DOLLARIZATION OF THE ECONOMY, PARTICULARLY IF THE PUBLIC ANTICIPATES FURTHER DEPRECIATION OF THE PESO AGAINST THE DOLLAR.

6. THE FEDERAL GOVERNMENT DOES NOT BORROW DIRECTLY FROM THE PUBLIC BUT RATHER DEPENDS ON THE BANKING SYSTEM TO RAISE FUNDS WHICH THE GOVERNMENT BORROWS VIA THE CENTRAL BANK. THE CENTRAL BANK CAN ADJUST THE FLOW OF FUNDS AVAILABLE TO THE GOVERNMENT THROUGH RESERVE REQUIREMENTS BUT DOES NOT BELIEVE IT CAN SQUEEZE THE PRIVATE SECTOR FURTHER AT THIS SOME LENDING BY THE CENTRAL BANK TO THE GOVERNMENT IS BEING DENOMINATED IN "MEX-DOLLARS." "MEX DOLLARS" IS A RELATIVELY RECENT TERM USED TO DESCRIBE THE DOLLAR DEPOSITS IN MEXICAN FINANCIAL INSTITUTIONS. THESE ARE ALSO BEING USED FOR LOANS TO PRIVATE ENTERPRISES.

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Department of State

TELEGRAM

CONFIDENTIAL

PAGE 03

MEXICO 15287 01 OF 02 040206Z

7. A MORE FLEXIBLE INTEREST RATE POLICY IS NEEDED, PARTICULARLY IF THE PESO IS GOING TO CONTINUE TO FLOAT. CURRENT LENDING INTEREST RATES, WHICH CAN BE AS LOW AS 15 PERCENT FOR MORTGAGES AND PRIME BORROWERS ARE NOT CLEARING THE MARKET. PRESUMABLY CREDIT IS BEING ALLOCATED BY SOME KIND OF SELECTIVE ADMINISTRATIVE CRITERIA. FOR EXAMPLE, THE BANK OF MEXICO HAS TRIED TO ENCOURAGE BANKS NOT TO LEND TO SUBSIDIARIES OF MULTINATIONALS WHICH SHOULD BE ABLE TO BORROW ABROAD. HOWEVER, A MANAGER OF ONE SUCH SUBSIDIARY TOLD US HE WAS ABLE TO BORROW PESOS APPARENTLY BECAUSE HE WAS CONSIDERED A SAFE RISK.

8. FINANCING THE PUBLIC SECTOR DEFICIT IN A NON-INFLATIONARY MANNER IN 1977, AS STIPULATED IN THE IMF PROGRAM, MAY BE DIFFICULT. WHILE LOPEZ-PORTILLO CALLED FOR A RESTRUCTURING OF INTEREST RATES, WE DO NOT YET KNOW WHAT THIS MEANS. WITHOUT A SUBSTANTIAL INCREASE IN PESO INTEREST RATES, THE "DOLLARIZATION" OF THE FINANCIAL SECTOR IS LIKELY TO CONTINUE. IF THESE DOLLARS CAN BE RETAINED IN MEXICAN BANKS, THEY CAN, PERHAPS, FINANCE AT LEAST PART OF THE PUBLIC SECTOR DEFICIT.

9. "DOLLARIZATION" WAS CALLED A THREAT TO MEXICO'S SOVEREIGNTY BY LOPEZ-PORTILLO. IT DOES REDUCE THE ABILITY OF THE MONETARY AUTHORITIES TO RUN A MONETARY POLICY THAT DIFFERS SIGNIFICANTLY FROM THAT OF THE U.S. BUT AS THE DEVALUATION AND SUBSEQUENT EVENTS HAVE DEMONSTRATED, THIS MAY HAVE NEVER BEEN A REAL ALTERNATIVE FOR AN EXTENDED PERIOD OF TIME.



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Department of State

TELEGRAM

CONFIDENTIAL * 3093

PAGE 01 MEXICO 15287 02 OF 02 040235Z

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ACTION ARA-10

INFO OCT-01 ISD-00 SP-02 USIA-06 AID-05 EB-07 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-00

L-03 H-02 PA-01 PRS-01 /085 W

125862

R 040015Z DEC 76
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9014
TREASURY WASHDC

~~CONFIDENTIAL~~ SECTION 2 OF 2 MEXICO 15287

10. TO COMBAT "DOLLARIZATION", LOPEZ-PORTILLO HAS PROPOSED THE REINTRODUCTION OF SILVER COINS AND LONG-TERM BONDS TIED TO WORLD PRICES OF BASIC COMMODITIES THE MEXICO PRODUCES. JLP SAID THE "STRONG PESOS" WOULD BE USED FOR TRANSACTIONS. WE SUSPECT THESE WILL SOON DISAPPEAR INTO MATTRESSES, THEREBY DEPRIVING THE ECONOMY OF SAVINGS. THE LONG-TERM BOND PROPOSAL IS FUZZY, BUT APPEARS TO CALL FOR BONDS PAYABLE IN PESOS BUT DENOMINATED IN TERMS OF WORLD MARKET PRICES FOR COMMODITIES SUCH AS OIL OR SILVER. WHILE BOTH TECHNIQUES MIGHT DIVERT SOME PESOS THAT WOULD OTHERWISE GO INTO DOLLAR INSTRUMENTS, WE DOUBT IF THEY WOULD SOLVE THE DOLLARIZATION PROBLEM. IT WOULD SEEM NECESSARY TO LET INTEREST RATES ACROSS THE BOARD REFLECT THE RELATIVE ATTRACTIVENESS OF PESOS VS. DOLLARS. MEXICAN BANKS WOULD PROBABLY BE UNWILLING TO PAY HIGH INTEREST RATES FOR DEPOSITS IN EXCESS OF SIX MONTHS, BECAUSE OF AN ANTICIPATION THAT RATES WOULD DECLINE WITHIN A YEAR OR EIGHTEEN MONTHS.

11. TO MANAGE A FLEXIBLE INTEREST RATE POLICY, THE GOVERNMENT COULD SET INTEREST RATES FOR ITS OWN SECURITIES AND SELL THEM DIRECTLY TO THE BANKS, OR TO THE PUBLIC

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Department of State

TELEGRAM

CONFIDENTIAL

PAGE 02

MEXICO 15287 02 OF 02 040235Z

OR CONTINUE TO USE THE CENTRAL BANK AS AN INTERMEDIARY. WHILE THE NEW ADMINISTRATION IS THINKING ABOUT THESE PROBLEMS, WE SUSPECT THAT THEY WILL BE RELUCTANT TO FREE INTEREST RATES JUST AS THEY HAVE BEEN RELUCTANT TO LET THE EXCHANGE RATE FLOAT FREELY. THE REASON WOULD BE THAT THE BANKING SYSTEM WOULD NOT WANT A SYSTEM WHEREBY INTEREST RATES ARE FIXED BY MARKET FORCES, AND THE GOM MAY NOT BELIEVE SUCH A SYSTEM MANAGEABLE.

12. AS A FOOTNOTE, THREE MONTH DOLLAR TIME DEPOSITS PAY 7.5 PERCENT FOR RESIDENTS AND 8.5 PERCENT FOR NON-RESIDENTS. IT IS VERY EASY FOR A MEXICAN TO SAY HIS RESIDENCE IS IN, FOR EXAMPLE, LOS ANGELES, BUT HE WANTS HIS STATEMENTS MAILED TO A LOCAL ADDRESS. THE RELATIVELY HIGHER RETURN ON MEX-DOLLARS COMPARED TO U.S. OR EURO-DOLLARS IS WHAT MAKES THEM ATTRACTIVE. ALSO, THE REAL INTEREST RATE ON DOLLARS IS POSITIVE WHEREAS THAT FOR PESOS IS NOW NEGATIVE. WITH THE MARKET FIXING INTEREST RATES, THE GOM AND/OR BANKS MAY WISH TO DROP THE MEX-DOLLAR. THIS WOULD DEPEND ON LOAN DEMAND FOR THE TWO CURRENCIES. PRESENTLY, THE CENTRAL BANK ABSORBS MOST OF THE MEX-DOLLARS AND RELEND THEM TO GOVERNMENT. NOW, COMPANIES BORROW DOLLARS ONLY WHEN PESOS ARE NOT AVAILABLE, THOUGH THIS COULD CHANGE IF REAL LENDING RATES FOR PESOS AS WELL AS DOLLARS WERE POSITIVE.

JOVA



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12/7/76
22
36
6.8

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

December 7, 1976 7 PM 4:53

RECEIVED
OFFICE OF THE CHAIRMAN

TO: Chairman Burns

FROM: Ted Truman

Attached are the latest cables on the Mexican economic situation.

Attachments: Mexico 15379
Mexico 15380

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 at least as high as that of its highest classified component."





Department of State

Mexico 50
TELEGRAM

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CONFIDENTIAL 1930

PAGE 01
#6
ACTION ARA-00

MEXICO 15379 070048Z

INFO DDI-01 SS-14 ISD-00 ER-03 SP-02 TRSE-00 NSC-05 NSCE-1
FRB-01 DNY-00 SSD-00 /032 W
020113

0 070015Z DEC 76 ZFF-4
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC IMMEDIATE 9846

PLEASE RETURN TO
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~~CONFIDENTIAL~~ MEXICO 15379

LIMITS FOR DISTRIBUTION FOR S, D, E, C, P, ER, ARA, S/P
TREASURY, NSC, FRB ONLY

7/25/76 dal
P. 9. 11652: GDS
TAGS: EFIN, MX
SUBJECT: MEXICAN ECONOMIC SITREP

1. EXCHANGE SYSTEM. THURSDAY DEC 2, PESO CLOSED AT 19.50 TO BUY DOLLARS VS. 21.00 TO SELL. FRIDAY, DEC. 3, IT CLOSED AT 20.00 AND 21.50 RESPECTIVELY. TODAY, DEC. 6, IT CLOSED AT 20.00 AND 21.00. MARKET APPEARS STABLE AND RELATIVELY DEEP IN THAT TRANSACTIONS OF ONE MILLION DOLLARS OR SO DO NOT AFFECT MARKET PRICE. HOWEVER, TRANSACTIONS OF FIVE MILLION OR MORE REPORTEDLY DO EXERT PRESSURE ON MARKET RATE. BANKERS CATEGORICAL IN STAYING BANCO DE MEXICO NOT IN MARKET NOR TRYING TO INFLUENCE IT. BANCO DE MEXICO WILL NOT BUY CASAS DE VALORES LONG OR SHORT POSITION AT END OF DAY, FORCING BANKS TO ASSURE THEY FINISH DAY AS CLOSE TO COVERED POSITION AS POSSIBLE. HOWEVER BANCO DE COMERCIO HAS NOT SEEN ANY TRANSACTIONS FOR PUBLIC ENTERPRISE AND CONCLUDE THAT BANCO DE MEXICO IS HANDLING EXCHANGE NEEDS FOR THEM. THERE APPEARS TO BE NO INTER-BANK OR INTER-CASA TRADING DURING DAY BUT SOME MAY BE ARRANGED AT END OF DAY TO COVER OPEN POSITIONS.

2. OTHER ECONOMIC FRONTS. MEXICAN BANKERS REPORT THAT SINCE LOPEZ PORTILLO'S INAUGURAL SPEECH DEC. 1 THEY FIND RENEWED CONFIDENCE AMONG MAJOR CUSTOMERS AND BUSINESS HAS PICKED UP. ON FRIDAY, LOPEZ PORTILLO, AND HIS



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PAGE 02

MEXICO 15379 070048Z

NEW TREASURY SECRETARY, RUDOLFO MOCTEZUMA INVITED OVER 100 BUSINESSMEN, BOTH MEXICAN AND FOREIGN, TO BREAKFAST. THIS MEETING WAS DELIBERATELY NOT PUBLICIZED ALTHOUGH PRESS DID EVENTUALLY NOTE THAT IT HAD OCCURRED. WE HEAR THAT MOCTEZUMA ASSURED BUSINESSMEN THEY HAD NOTHING TO FEAR FROM NEW GOVERNMENT WHICH WOULD FOLLOW THE CONSTITUTION. JLP DID NOT SPEAK, HOWEVER. REPORT- FDLY BUSINESSMEN LEFT HIGHLY IMPRESSED. WE HAVE ALSO HEARD THAT FOR THREE WEEKS PRIOR TO DEC. 1 MOCTEZUMA HAD BEEN SEEING IMPORTANT BUSINESSMEN AND ASKING THEM WHAT THEY WOULD NEED FROM THE NEW GOVERNMENT. HE MADE A POINT OF CAREFULLY NOTING THEIR REPLIES BUT MADE NO PROMISES.

JOVA



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Department of State

Mexico 52
TELEGRAM
EMT

CONFIDENTIAL 2278

PAGE 01 MEXICO 15380 070112Z
71
ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 FB-07 FRB-08
INR-07 NSAE-00 USIA-06 YMB-02 OPIC-03 SP-02 CIE-01
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 7078
----- 020426

R 070015Z DEC 76
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9047
INFO TREASURY WASHDC

~~CONFIDENTIAL~~ MEXICO 15380

FO 11652: GDS
TAGS: EFIN MX

PLEASE RETURN TO
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SUBJECT: FOREIGN BANKERS REACTION TO JLP INAUGURATION

1. SUMMARY: OUR SAMPLING OF FOREIGN BANKERS ATTENDING JLP INAUGURATION INDICATES THEY FOUND SPEECH ENCOURAGING, BUT ARE AWAITING MORE SPECIFIC INDICATIONS OF JLP POLICIES BEFORE MAKING POLICY DECISIONS. MEDIUM-SIZED AND LARGER BANKS APPEAR TO BE WILLING TO MAINTAIN THEIR EXPOSURE AT CURRENT LEVELS, BUT SEVERAL BANKERS INDICATED THERE IS PRESSURE FROM SENIOR MANAGEMENT TO REDUCE EXPOSURE. END SUMMARY.

2. LARGE NUMBER OF FOREIGN BANKS ARE REPRESENTED AT INAUGURATION CEREMONIES OF JLP. CONVERSATIONS OF EMBASSY OFFICIALS WITH THOSE BANKERS INDICATE THAT BANKERS FOUND JLP'S INAUGURAL ADDRESS UPREAT AND ENCOURAGING, BUT WOULD HAVE LIKED TO KNOW MORE SPECIFICS OF NEW ADMINISTRATION'S ECONOMIC POLICIES. ON THURSDAY NIGHT NEW FINANCE MINISTER NOCTEZUMA HOSTED DINNER AND ON FRIDAY PRESIDENT HOSTED BREAKFAST FOR VISITING BANKERS, WHILE SOME BANKERS HAD EXPRESSED HOPE THAT MORE DETAIL MIGHT BE PROVIDED ON ONE OR BOTH OF THESE OCCASIONS, NONE WAS FORTHCOMING. BANKERS WERE LIMITED FOR MOST PART TO TEN-SECOND CONVERSATIONS WITH SENIOR GOV OFFICIALS. PROBLEMS IN ORGANIZING NEW GOVERNMENT HAS MADE IT DIFFICULT TO SEE NEW SENIOR OFFICIALS PRIVATELY.

3. VISITING OFFICIAL OF LARGE TEXAS BANK TOLD FINATT THAT HIS SENIOR MANAGEMENT WANTED SOME POSITIVE SIGNS THAT GOV IS MOVING

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CONFIDENTIAL

PAGE 02

MEXICO 15380 0701127

TO STABILIZE ECONOMY WITHIN THREE MONTHS OR THEY WOULD BE REDUCING THEIR EXPOSURE. HE ALSO EXPRESSED CONCERN ABOUT RECLASSIFICATION OF LOANS TO MEXICAN PUBLIC SECTOR ENTITIES BY COMPTROLLER OF THE CURRENCY, AND EXPRESSED OPINION THAT POLITICAL FACTORS SHOULD BE TAKEN INTO ACCOUNT BEFORE ANY ACTION.

4. REPRESENTATIVE OF LARGE NEW YORK BANK SAID THEY WERE ADOPTING LOW PROFILE FOR TIME BEING, HIS COMMENTS IMPLIED HIS SENIOR MANAGEMENT WAS CONSIDERING HOW THEY COULD REDUCE THEIR EXPOSURE OVER COURSE OF NEXT YEAR.

5. SENIOR OFFICIAL OF LARGE PENNSYLVANIA BANK EXPRESSED RESERVATIONS ABOUT INAUGURAL SPEECH AND EXPRESSED SATISFACTION THAT BANK'S EXPOSURE WAS HEAVILY ORIENTATED TOWARD PUBLIC SECTOR AND MOSTLY SHORT-TERM.

6. BANKERS THAT TEND TO BE MOST OPTIMISTIC ARE THOSE WITH LARGE EXPOSURES; I.E, BANK OF AMERICA AND CITIBANK, THOUGH IN PRIVATE THEY TOO EXPRESS THEIR CONCERNS.

7. ONE ITEM IN JLP SPEECH THAT DID IMPRESS BANKERS WAS HER STATEMENT, "WE WILL SUPPORT COMPANIES WHICH IN GOOD FAITH WERE FORCED TO INCUR DEBTS IN DOLLARS IN ORDER TO PREVENT RISE IN COSTS AND DEPELETION OF THEIR CAPITAL". THEY ARE ANXIOUS TO KNOW HOW NEW GOVERNMENT WILL IMPLEMENT

8. NEW FINANCE MINISTER, MOCTEZUMA CTD IS VIRTUALLY UNKNOWN TO BANKERS WHICH IS PROBABLY NEGATIVE FACTOR, AT LEAST UNTIL MOCTEZUMA CAN PROVE HIMSELF. ROMERO KULBECK, AS HEAD OF MAFINSA FINANCIERA, WAS KNOWN TO BANKERS, BUT NOT VERY WELL AS LOWER LEVEL OFFICIALS HANDLED MOST OF MAFINSA'S NEGOTIATIONS WITH COMMERCIAL BANKERS. WE HAVE NOT HEARD ANY REMARKS ABOUT TELLO IN PART BECAUSE HIS POSITION WOULD NOT NECESSARILY PUT HIM IN DIRECT CONTACT WITH FOREIGN BANKERS.

9. BRITISH BANKER EXPRESSED CONCERN ABOUT REACTION OF U.S. BANKS TO MEXICO'S SITUATION. HE SAID THAT HE BELIEVED THAT THE DIFFICULT PERIOD WOULD LAST SEVERAL YEARS, BUT THAT THE LONGER-TERM OUTLOOK WAS STILL THE BEST AMONG DEVELOPING COUNTRIES. SHOULD U.S. BANKS TRY TO PULL OUT, HE SAID, THIS WOULD ENCOURAGE

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Department of State

TELEGRAM

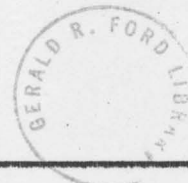
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PAGE 03

MEXICO 15380 070112Z

THE REST OF THE BANKING COMMUNITY
JOVA

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December 17, 1976

TO: Chairman Burns

FROM: Ted Truman

Attached is the latest cable on the Mexican economic situation.

Attachment: Mexico 15724

cc: Governor Wallich

Devised 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 at least as high as that of its highest classified component."





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TELEGRAM

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PAGE 01 MEXICO 15724 150142Z
ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-0
CIEP-01 LAB-04 SIL-01 OMB-01 /053 W

R 150100Z (DEC 76 15)
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9187

~~CONFIDENTIAL~~ MEXICO 15724

return to
International Information Center

dal 7125107

E.O. 11652: GDS
TAGS: EFIN MX
SUBJECT: FORMER BANK OF MEXICO DIRECTOR GENERAL'S VIEW ON
ECONOMIC OUTLOOK

1. I SAW FORMER BANK OF MEXICO DIRECTOR GENERAL ERNESTO FERNANDEZ-HURTADO AT SOCIAL EVENT RECENTLY. HE TOLD ME THAT THE BANK OF MEXICO IS INFLUENCING THE RATES IN THE EXCHANGE MARKET AND DOES ENGAGE IN FOREIGN EXCHANGE TRANSACTIONS FROM TIME TO TIME.
2. HE ALSO SAID THAT IN NOVEMBER AND DECEMBER CAPITAL REFLWS WERE NOT UNUSUAL AS BUSINESSES NEEDED MONEY TO PAY YEAR-END BONUSES AND MEET OTHER COMMITMENTS. THIS COULD ACCOUNT FOR THE APPARENT STRENGTH OF THE PESO AT THE MOMENT. HE SAID THAT THE NEXT SIX MONTHS WERE LIKELY TO BE VERY DIFFICULT FOR THE PESO AS THE NEW GOVERNMENT AND EXCHANGE SYSTEM IS BEING TESTED.
JOVA



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TELEGRAM
LEASED WIRE SERVICE
RECEIVED AT WASHINGTON

1976 DEC 20 AM 7 43

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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2238 EST+
440043 FEDR UI+
440043 FEDR UI
BANXICO EXT MEX
T 107 MEXICO DF DEC 17, 1976 ROV HS 21.40
BANK OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON D C

ATTN. MR ARTHUR BURNS
CHAIRMAN

PLEASE BE ADVISED THAT THE BANK OF MEXICO HAS ISSUED FOLLOWING
TELEX TO THE MEXICAN BANKING INSTITUTIONS.

''A PARTIR DEL 20 DE LOS CORRIENTES QUEDA SIN EFECTO LO
DISPUESTO EN NUESTRO TELEX-CIRCULAR DEL 21 DE NOVIEMBRE
ULTIMO. CONSECUENTEMENTE, LAS INSTITUCIONES DE CREDITO
PODRAN COMPRAR Y VENDER MONEDA EXTRANJERA Y ORO AMONEDADO
EN LOS TERMINOS DE LA LEY BANCARIA. AL EFECTUAR LAS
OPERACIONES REFERIDAS SE AJUSTARAN A LO ESTABLECIDO EN
NUESTRA CIRCULAR 1740/72, DETERMINANDO SUS TIPOS DE VENTA
Y DE COMPRA LIBREMENTE.

LOS BANCOS DE DEPOSITO QUE ESTIMEN NECESARIO TOMAR POSI-
CIONES MAS AMPLIAS QUE LAS PERMITIDAS EN NUESTRA CITADA
CIRCULAR 1740/72, PRESENTARAN SUS SOLICITUDES AL RESPECTO
A ESTE BANCO CENTRAL EL CUAL LAS RESOLVERA CON VISTA AL
VOLUMEN Y CAPACIDAD DE OPERACION DE LAS SOLICITANTES.''

SECURITIES HOUSES CONTINUE AUTHORIZED TO OPERATE IN
FOREIGN EXCHANGE.

IN ADDITION, AND ON A STRICTLY CONFIDENTIAL BASIS, PLEASE
BE ADVISED THAT BANK OF MEXICO MAY INTERVENE IN THE FOREIGN
EXCHANGE MARKET TO PREVENT ERRATIC FLUCTUATIONS IN THE EXCHANGE
RATE OF THE MEXICAN PESO TO THE DOLLAR. REGARDS,

BANXICO

*
440043 FEDR UI
BANXICO EXT MEX
HS 21.45



ITT World Communications Inc.
1709 L St. N.W. Washington D.C. Phone 295-6200

TRANSLATION OF TWO PARAGRAPHS
IN SPANISH
FROM TELEGRAM RECEIVED FROM
BANK OF MEXICO

Beginning on December 20, the provisions of our telex-circular of last November 21 are repealed. Consequently, the credit institutions may buy and sell foreign currencies and gold coins as provided by the banking law. In conducting these operations, they will comply with the provisions of our circular 1740/72, determining their selling and buying rates freely.

The deposit banks which deem it necessary to take wider positions than those permitted in our circular 1740/72, mentioned above, shall present applications for this purpose to this central bank which will pass on them on the basis of the volume and capacity of operation of the applicants.



2238 EST*

440043 FEDR UI*

440043 FEDR UI

BANXICO EXT MEX

T 107 MEXICO DF DEC 17, 1976 ROV HS 21.40

BANK OF GOVERNORS

FEDERAL RESERVE SYSTEM

WASHINGTON D C

ATTN: MR ARTHUR BURNS
CHAIRMAN

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TELEX TO THE MEXICAN BANKING INSTITUTIONS.

''A PARTIR DEL 20 DE LOS CORRIENTES QUEDA SIN EFECTO LO
DISPUESTO EN NUESTRO TELEX-CIRCULAR DEL 21 DE NOVIEMBRE
ULTIMO. CONSEQUENTEMENTE, LAS INSTITUCIONES DE CREDITO
PODRAN COMPRAR Y VENDER MONEDA EXTRANJERA Y ORO AMONEDADO
EN LOS TERMINOS DE LA LEY BANCARIA. AL EFECTUAR LAS
OPERACIONES REFERIDAS SE AJUSTARAN A LO ESTABLECIDO EN
NUESTRA CIRCULAR 1740/72, DETERMINANDO SUS TIPOS DE VENTA
Y DE COMPRA LIBREMENTE.

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CIONES MAS AMPLIAS QUE LAS PERMITIDAS EN NUESTRA CITADA
CIRCULAR 1740/72, PRESENTARAN SUS SOLICITUDES AL RESPECTO
A ESTE BANCO CENTRAL EL CUAL LAS RESOLVERA CON VISTA AL
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RATE OF THE MEXICAN PESO TO THE DOLLAR. REGARDS,

BANXICO

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440043 FEDR UI
BANXICO EXT MEX
HS 21.45

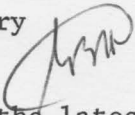


BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

December 20, 1976

To: Chairman Burns

From: George B. Henry


Attached are the latest cables on the Mexican economic situation.

Attachments: Mexico 15754
Mexico 15769
Mexico 15770

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 at least as high as that of its highest classified component."





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TELEGRAM

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PAGE 01 MEXICO 15754 152245Z
ACTION ARA-10

INFO OCT-01 ISO-00 AGRE-00 AID-05 CIAE-00 COME-00 EB-07
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 L-03 H-01 PA-01 PRS-01 /084 W
----- 017509 /15

R 152158Z DEC 76 15
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9205

Please return to
International Information Center

LIMITED OFFICIAL USE MEXICO 15754

E.O. 11652: N/A
TAGS: EGEN MX
SUBJECT: PUBLIC-PRIVATE SECTOR AGREEMENTS

REF: MEXICO 15646

1. FOLLOWING COMMENTS ON PUBLIC-PRIVATE SECTOR AGREEMENTS
CAME FROM AMBASSADOR'S DECEMBER 13 MEETING WITH U.S. BUSI-
NESSMEN. U.S. BUSINESSMEN VIEW AGREEMENTS NOT AS BINDING, BUT
RATHER AS A "LETTER OF INTENT". ONE BUSINESSMAN SAID HIS WAS
THE ONLY FOREIGN COMPANY IN HIS INDUSTRIAL GROUP (FATS AND
OILS) AND HE WAS UNDER CONSIDERABLE PRESSURE TO SIGN.

2. IT IS NOT CLEAR IF THE PROPOSED INVESTMENT OVER THE SIX-
YEAR PERIOD WOULD BE ADDITIONAL. AUTOMOBILE REPRESENTATIVES
SAID THIS WAS NOT NECESSARILY THE CASE FOR THEIR COMPANIES
WHOSE INVESTMENTS WOULD DEPEND ON THEIR OWN ASSESSMENT OF THE
ECONOMIC SITUATION. TIME FRAME FOR PROPOSED NEW INVESTMENT
APPEARS TO VARY FROM GROUP TO GROUP, IN SOME CASES BEING A
TWO-YEAR PERIOD AND IN OTHER CASES LONGER. THE BUSINESSMAN
SAID "SHORT-TERM" LABEL APPLIED TO AGREEMENTS WOULD BE
LONGER THAN GOM INTENDS AND SHORTER THAN INDUSTRY HOPES FOR.

3. SOME GOM-OWNED ENTERPRISES PARTICIPATED IN THE NEGOTIA-
TIONS. APPARENTLY THE FIRST AGREEMENT SIGNED WAS FOR PETRO-
CHEMICALS AND INVOLVED ONLY PEMEX.

4. THE ELEVENTH AGREEMENT WAS TO HAVE BEEN BETWEEN THE JLP

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TELEGRAM

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PAGE 02

MEXICO 15754 152245Z

TEAM AND THE BASIC CONSUMER DURABLES INDUSTRY. THIS WAS NOT SIGNED FOR REASONS WHICH OUR BUSINESS CONTACTS WERE NOT CERTAIN, BUT BELIEVED DUE TO THE LARGE NUMBER AND VARIETY OF FIRMS INVOLVED.

5. THE BUSINESSMEN ARE NOT CLEAR WHAT APPROACH JLP WILL TAKE TO PRICE CONTROLS, BUT SOME SUSPECTED THAT HE MAY TRY TO CUT BACK ON THE NUMBER OF ITEMS THAT ARE PRICE-CONTROLLED, LIMITING THESE TO BASIC CONSUMER GOODS AND SOME CONSUMER DURABLES. SOME WORRY WAS EXPRESSED THAT PRICE CONTROLS WOULD BE APPLIED TO ONE "BASIC MODEL" WITH FIRMS EXPECTED TO MAKE UP LOSSES IN SALES OF OTHER MODELS, (CHARACTERIZED AS THE "VENEZUELAN SOLUTION").

6. WE VIEW THE AGREEMENTS AS A PUBLIC RELATIONS MEASURE MORE THAN AN ELABORATE ATTEMPT AT SECTORAL PLANNING. THEY HAVE ALREADY BEEN A PUBLIC RELATIONS SUCCESS BUT ONLY TIME CAN JUDGE THEIR USEFULNESS AS PLANNING TOOLS.

7. PARTICIPANTS IN THE DISCUSSIONS SAID THAT NEWSPAPER SUMMARIES WERE ACCURATE. THE OVERALL COVERING AGREEMENT IS AVAILABLE, BUT INDIVIDUAL SECTOR AGREEMENTS ARE MORE CLOSELY HELD. BUSINESSMEN GENERALLY WERE ENCOURAGED BY PREAMBLE LANGUAGE REAFFIRMING RIGHTS OF PRIVATE PROPERTY, RULE OF LAW AND DESIRABILITY OF REASONABLE PROFITS. ALL PARTICIPANTS WERE IMPRESSED BY CONCISE, PUNCTUAL AND EFFICIENT NATURE OF SIGNING CEREMONY OF OVERALL AGREEMENT.
THOMPSON



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PAGE 01 MEXICO 15769 160037Z
ACTION ARA-10

INFO OCT-01 ISD-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 CIEP-01
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03
H-01 PA-01 PRS-01 /084 W

019252 /15

R 160006Z DEC 76 16
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9210
INFO DEPT OF TREAS WASHDC

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E.O. 11652: N/A
TAGS: EFIN, MX
SUBJECT: MEXICAN BANKER'S VIEWS ON OPERATION OF FOREIGN
EXCHANGE MARKET

BANCO DE COMERCIO OFFICER, WHO OVERSEES THE BANK'S FOREIGN EXCHANGE OPERATION, TOLD EMBASSY OFFICERS TODAY THAT HIS BANK, THROUGH ITS ASSOCIATED CASA DE VALORES WAS BUYING MORE DOLLARS THAN IT WAS SELLING. BANK WAS PRESENTLY LONG ON DOLLARS. HENCE VALUE OF PESO WAS APPRECIATING. HE SAW LITTLE CHANGE IN THIS TENDENCY OVER NEXT SEVERAL WEEKS AT LEAST. HE SAID BANCO DE COMERCIO SETS ITS OWN RATE ALTHOUGH IT DID CONSULT WITH OTHER MAJOR FOREIGN EXCHANGE TRADERS, ESPECIALLY BANCO NACIONAL DE MEXICO. NEVERTHELESS DEPENDING ON THEIR DOLLAR POSITIONS BOTH BANKS FREQUENTLY HAD SLIGHTLY DIFFERENT RATES. HE DID NOT BELIEVE THE BANCO DE MEXICO WAS IN THE FOREIGN EXCHANGE MARKET, AT LEAST NOTICEABLY. HE ALSO STATED THAT RECENTLY ATTEMPTS BY A PUBLIC COMPANY TO SELL 10 MILLION DOLLARS HAD BEEN REFUSED BY HIS BANK BECAUSE IT WAS ALREADY TOO LONG IN DOLLARS AND DID NOT WANT TO PUT PRESSURE ON THE RATE. HE DID NOT KNOW HOWEVER WHAT THE FIRM EVENTUALLY DID. HE ALSO INDICATED THAT A FORWARD MARKET WOULD HAVE TO DEVELOP SOON BUT SURPRISINGLY COUPLED THIS WITH COMMENT ON NECESSITY TO FIX EXCHANGE RATE AFTER A FEW MONTHS. HE BELIEVED THE BANCO DE MEXICO WAS ANXIOUS TO SEE A FORWARD MARKET ESTABLISHED. HE HAD HEARD OF ONE TEN THOUSAND DOLLAR FORWARD OPERATION THAT WAS REPORTED IN TODAY'S PRESS



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PAGE 02 MEXICO 15769 160037Z

BUT DID NOT KNOW WHAT CASA DE VALORES WAS INVOLVED. FINALLY,
HE INDICATED THAT THE BANCO DE MEXICO WAS NOT WATCHING THE
MARKET AS CLOSELY AS IT HAD BEEN IN THE FIRST SEVERAL WEEKS.
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UNCLASSIFIED # 5925

PAGE 01 MEXICO 15770 160152Z
ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01
INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02 CIEP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 PA-02
PRS-01 L-03 H-02 AGRE-00 /099 W

020176 /15

R 160008Z (DEC 76) /6
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9211
INFO TREASURY DEPT WASHDC

UNCLAS MEXICO (15770)

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International Information Center

E.O. 11652: N/A
TAGS: AFIN MX
SUBJ: BUDGET FOR 1977.

1. SUMMARY. 1977 PUBLIC SECTOR BUDGET CALLS FOR 38.9 PERCENT INCREASE IN SPENDING TO 616.3 BILLION PESOS. THIS SAID TO BE A SLIGHT INCREASE IN REAL TERMS. NET NEW FINANCING REQUIREMENT IS 126.8 BILLION PESOS. END SUMMARY.

2. SECRETARIES OF PRESIDENCY AND TREASURY PRESENTED 1977 PUBLIC SECTOR BUDGET IN PRESS CONFERENCE AT NOON, DECEMBER 15. THIS IS A PRELIMINARY REPORT.

3. TOTAL BUDGETED SPENDING FOR 1977 IS 616.3 BILLION PESOS, UP 38.9 PERCENT FROM 1976 LEVEL. THIS IS SAID TO BE A SLIGHT INCREASE IN REAL SPENDING. WE PRESUME, BUT HAVE NOT CONFIRMED THAT PRICE DEFLATOR ASSUMED TO BE 35 PERCENT. CURRENT SPENDING IS UP 31.5 PERCENT TO 374.3 BILLION PESOS. CAPITAL SPENDING UP 46.8 PERCENT, TO 147.8 BILLION PESOS.

4. SECTORAL BREAKDOWN IN PERCENT IS AS FOLLOWS:
AGRICULTURE, 16.8; INDUSTRIAL, 33.3; SOCIAL DEVELOPMENT 21.8, TRANSPORTATION AND COMMUNICATIONS, 7.3, TOURISM 0.4, ADMINISTRATION 20.4. THE BIGGEST INCREASES ARE FOR INDUSTRIAL DEVELOPMENT AND ADMINISTRATION; THE LATTER INCLUDES DEBT SERVICING. EXCHANGE RATE OF 22.50 USED FOR CALCULATING FOREIGN DEBT SERVICING



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PAGE 02

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BURDEN.

5. THE PROPOSED INCOME LAW DOES NOT SEEM TO INCLUDE ANY MAJOR TAX CHANGES, THOUGH SEPARATE LEGISLATION IS SAID TO BE FORTHCOMING, PERHAPS BY WEEKEND. PRESS TOLD THERE WOULD NOT BE ANY MAJOR TAX CHANGES, EXCEPT FOR ADJUSTMENT OF INCOME TAX RATES.

6. TOTAL REVENUES ARE PROJECTED AT 677.4 BILLION PESOS. (NOTE THAT 61.1 BILLION PESOS OF THESE ARE CONSIDERED OFFSETTING OPERATIONS AND NOT INCLUDED IN EXPENDITURE FIGURE.) MAJOR SOURCES OF INCOME ARE AS FOLLOWS: INCOME TAX 76.6 BILLION PESOS; TAXES ON PRODUCTION AND COMMERCE 42.9 BILLION PESOS; SALES TAX 40.6 BILLION; IMPORT TAXES 17.3 BILLION PESOS; EXPORT TAXES, 13.1 BILLION PESOS; SOCIAL SECURITY TAXES, 37.0 BILLION PESOS; REVENUES OF DECENTRALIZED AGENCIES AND GOV-OWNED ENTERPRISES 205 BILLION PESOS. FEDERAL GOVERNMENT BORROWING IS TO YIELD 135.4 BILLION PESOS AND OTHER PUBLIC SECTOR BORROWING 85.6 BILLION PESOS. THIS TOTAL PUBLIC SECTOR GROSS BORROWING OF 221 BILLION IS REDUCED TO THE NET NEW FINANCING REQUIREMENT OF 126.8 BILLION BY DEDUCTING AMORTIZATION PAYMENTS OF 74.7 BILLION PESOS AND 19.6 BILLION PESOS FOR FUNDS COMMITTED IN 1977, BUT EXPENDED IN 1978. THERE ARE TWO PUBLIC DEBT AMORTIZATION FIGURES. ONE IS 74.7 BILLION AND ANOTHER IS 94.3 BILLION. SHOULD THE LATTER FIGURE BE ACCURATE, THEN THE NET NEW FINANCING REQUIREMENT WOULD BE 20 BILLION LESS.

7. THERE WERE NO TABLES FOR 1976 IN THE BUDGET DOCUMENT, MAKING YEAR TO YEAR COMPARISONS DIFFICULT.
JOVA

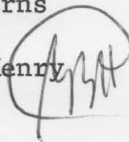


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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

December 21, 1976

To: Chairman Burns

From: George B. Henry 

Attached are the latest cables on the Mexican economic situation.

Attachments: Mexico 15646
Mexico 15908
Mexico 15938
Mexico 15939

cc: Governor Wallich

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
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PA-01 PRS-01 (TFC6) W

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R 132229Z (DEC 76 13
FM AMEMBASSY-MEXICO
TO SECSTATE WASHDC 9150
INFO DEPT OF TREAS WASHDC
ALL CONSULATES IN MEXICO (POUCH)

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E.O. 11652: N/A
TAGS: EGEN, MX
SUBJECT: PUBLIC-PRIVATE SECTOR AGREEMENTS :

1. SUMMARY: LOPEZ-PORTILLO PRESIDED OVER MEETING OF GOVERNMENT AND PRIVATE SECTOR LEADERS ON DEC 10, TO FORMALIZE AGREEMENTS BETWEEN GOVERNMENT AND 140 BUSINESSES TO BOOST OUTPUT AND EMPLOYMENT OVER THE NEXT SIX YEARS. AGREEMENTS WERE TOUTED AS PART OF JLP'S ALLIANCE FOR PRODUCTION AND REPRESENT INFORMAL SECTOR PLANNING, WITH MORE PROMISED. MORE IMPORTANTLY, THEY REPRESENT A MARKED CHANGE FOR THE BETTER IN PUBLIC-PRIVATE SECTOR RELATIONS. END SUMMARY.

2. LOPEZ-PORTILLO PRESIDED OVER MEETING OF PUBLIC AND PRIVATE SECTOR LEADERS ON DEC 10, TO FORMALIZE THE AGREEMENTS BETWEEN HIS ADMINISTRATION AND TEN INDUSTRIAL GROUPS INCLUDING 140 BUSINESSES. THE AGREEMENTS PROVIDE FOR SPECIFIC ACTIONS BY BOTH THE GOVERNMENT AND THE PRIVATE SECTOR. THE AGREEMENTS WERE NEGOTIATED PRIOR TO DEC 1, BY THE LOPEZ-PORTILLO TEAM AND CALL FOR THE INVESTMENT OVER SIX YEARS OF 100 BILLION AUGUST 1976 PESOS AND THE CREATION OF 300,000 JOBS.

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4. INDUSTRIES COVERED BY THE TEN AGREEMENTS ANNOUNCED DEC 10, WERE PETROCHEMICALS, CAPITAL GOODS, IN-BOND ASSEMBLY PLANTS, TOURISM, VEGETABLE OILS, CEMENT, MINING, AUTOPARTS AND AUTO ASSEMBLY PLANTS. THE AGREEMENTS ARE NOT BINDING, THOUGH THE COMMISSION SEEMS TO BE PUBLICIZING THEM AS SUCH. AS AN EXAMPLE, THE AUTOPARTS AGREEMENT (A) CALLS FOR THE GOVERNMENT TO ENSURE ACCESS TO IMPORTS, (B) REQUIRES A STUDY OF TAX INCENTIVES, AND (C) CONTEMPLATES A RATIONALIZATION OF THE PRICE CONTROL MECHANISM.

5. FOREIGN BUSINESSMEN WHO PARTICIPATED IN THE DISCUSSIONS TELL US THEY FOUND THE LOPEZ-PORCILLO TEAM OPEN AND SYMPATHETIC TO THEIR PROBLEMS. ONE FAIRLY COMMON COMPLAINT BY BUSINESSMEN CONCERNED THE PRICE CONTROL SYSTEM WHICH THEY MAINTAIN HURTS PROFITS AND THEREBY HINDERS INVESTMENT. THE AGREEMENTS APPEAR TO CALL FOR A REVIEW OF THIS SYSTEM AND LOPEZ-PORCILLO IN HIS SPEECH SAID THAT MEXICO WOULD SOON HAVE TO ABANDON THIS POLICY OF "ECONOMIC-FICTION" AND FACE NEW PRICE INCREASES.

6. LOPEZ-PORCILLO SAID THE AGREEMENTS CONFIRMED ON DEC 10, WERE ONLY THE BEGINNING AND THAT SHORTLY A SECTOR PLAN FOR AGRICULTURE, FORESTS AND FISHING WOULD BE ANNOUNCED. HE ALSO SAID A "GLOBAL" PLAN FOR THE PUBLIC SECTOR BROKEN DOWN BY SECTORS, WOULD BE ANNOUNCED IN JANUARY 1977. THE PRESIDENT PICKED UP A THEME FROM HIS DEC 1 SPEECH AND SAID THAT THE POST-WORLD WAR II ECONOMIC POLICIES HAD TERMINATED. HE CALLED THE PRIVATE SECTOR A PARTNER IN ATTAINING A NEW BASIC OBJECTIVE WHICH HE DESCRIBED AS GUARANTEEING A MINIMUM LEVEL OF SUBSISTENCE FOR THE POPULAR CLASSES.

7. LOPEZ-PORCILLO'S SPEECH WAS CONCILIATORY AND FRIENDLY, QUITE THE CONTRARY OF ECHEVERRIA WHO TENDED TO TREAT MANAGEMENT AS SELF-SEEKING WITH NO INTEREST IN PURSUING COURSES OF ACTION THAT WOULD BENEFIT THE ENTIRE POPULATION. NEEDLESS

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MEXICO 15646 132257Z

TO SAY, THE BUSINESS COMMUNITY WELCOMED THE CHANGE OF TONE.

7. THE NEXT HURDLE FOR THE NEW ADMINISTRATION WILL BE THE 1977 BUDGET THAT IS TO BE RELEASED THIS WEEK, PROBABLY BY WEDNESDAY. IF THE TARGETS IN THE IMF PROGRAM ARE TO BE ATTAINED, THE BUDGET WILL HAVE TO INCLUDE MEASURES TO INCREASE REVENUE SUBSTANTIALLY. TO THE DEGREE THAT THESE IMPACT ON BUSINESS, THE HONEYMOON JLP IS NOW ENJOYING WITH BUSINESS MAY BE AFFECTED, THOUGH NOT NECESSARILY ENDED. THE BUSINESS COMMUNITY IS NOT PREPARED FOR AUSTERITY, BUT RATHER IS ANTICIPATING A NEW ERA OF GROWTH AND, THEY HOPE, PROSPERITY, AS IS IMPLIED IN THE NEW AGREEMENTS, THE IDEA FOR WHICH AND MUCH OF THE NEGOTIATIONS PRECEDED THE DEVALUATION.

8. THIS SUBJECT WILL BE DISCUSSED AT THE AMBASSADOR'S MEETING WITH U.S. BUSINESSMEN ON AFTERNOON OF DEC 13. WE WILL REPORT THEIR REACTION AND OPINIONS AFTER THIS MEETING. FOREIGN BUSINESSES HAVE PARTICIPATED IN THE NEGOTIATIONS AND WERE REPRESENTED AT THE DEC 10 CEREMONY.
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PAGE 01 MEXICO 15908 180048Z
ACTION ARA-10

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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
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R 180008Z (DEC 76) 18
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9270
INFO DEPT OF TREASURY WASHDC

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E.O. 11652: N/A
TAGS: EPIN MX
SUBJECT: 1977 PUBLIC SECTOR EXPENDITURES

REF: A) MEXICO 15770, B) MEXICO 15826.

1. SUMMARY: WE WERE SURPRISED BY THE SIZE OF THE PROPOSED PUBLIC SECTOR SPENDING IN 1977, IN PARTICULAR SPENDING ON SOCIAL DEVELOPMENT. GOM DENIES BUDGET WILL HAVE INFLATIONARY IMPACT, AND EMPHASIZES NEED TO INCREASE PRODUCTION. END SUMMARY.

2. WE HAVE NOT HEARD ANYBODY CALL THE 1977 BUDGET AUSTERE THOUGH THE GOVERNMENT IS SAYING THAT IT WILL NOT BE INFLATIONARY, AND THAT IT IS GEARED AT INCREASING OUTPUT. THIS WAS THE POINT OF VIEW EXPRESSED BY SECRETARY OF PRESIDENCY, CARLOS TELLO, AT THE PRESS CONFERENCE WHEN THE BUDGET WAS ANNOUNCED. HE APPEARS TO BE LIVING UP TO HIS REPUTATION AS A SPENDER (SEE PARA 4, MEXICO 15206).

3. BUDGET MESSAGE STATES THAT 31.5 PERCENT INCREASE IN CURRENT SPENDING IS LIMITED TO WHAT IS INDISPENSABLE TO CONTINUE OPERATING THE ADMINISTRATION, WHEREAS THE 46.8 PER-



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PAGE 02

MEXICO 15908 180048Z

CENT IN CAPITAL SPENDING IS AIMED AT INCREASING EMPLOYMENT AND CREATING THE BASIS (PRESUMABLY INFRA-STRUCTURE) FOR FURTHER DEVELOPMENT, THEREBY CONTRIBUTING TO THE "ALLIANCE FOR PRODUCTION". INCREASED PRODUCTION OF GOODS AND SOCIAL SERVICES FOR THE POPULAR CLASSES, AND INCREASED EMPLOYMENT SEEM TO BE THE OVERRIDING OBJECTIVES OF THE BUDGET.

4. SPENDING ON AGRICULTURE IS SAID TO CONTINUE AT ROUGHLY THE SAME LEVEL IN REAL TERMS AS LAST YEAR, BUT THAT RURAL DEVELOPMENT PROGRAM (PIDER) EXPENDITURES WILL BE UP 60 PERCENT OVER 1976 AUTHORIZED LEVELS. (THIS PROGRAM IS FINANCED IN PART AT LEAST BY IBRD AND IDB LOANS). BUDGET PRESENTATION ALSO OUTLINES PROSPECTIVE IMPORTS AND EXPORTS OF MAJOR COMMODITIES BY CONASUPO, GOM-OWNED FOOD DISTRIBUTION AGENCY. AGATT BELIEVES IMPORT REQUIREMENTS MAY BE UNDERSTATED AND EXPORTS OVERSTATED. THEY SHOW EXPORTS OF 150,000 TONS OF WHEAT WHEN THEY WILL PROBABLY HAVE TO IMPORT WHEAT. THIS IS ONE OF FEW INSTANCES WHERE EMBASSY HAS EXPERTISE TO LOOK AT DETAILED FIGURES AND WHERE SUCH INFORMATION IS AVAILABLE. OUR CONCLUSION IS NOT ENCOURAGING AS REGARDS THE LIKELIHOOD OF THE GOM BEING ABLE TO IMPLEMENT ITS PLANS.

5. IN THE INDUSTRIAL SECTOR, A 96 PERCENT INCREASE IN INVESTMENTS IN ENERGY IS PROGRAMMED WITH THE STATED INTENTION OF MAINTAINING EQUILIBRIUM BETWEEN EXPLORATION, EXPLOITATION AND REFINING OF HYDROCARBONS. INVESTMENT IN PRODUCTION OF FERTILIZERS AND PETROCHEMICALS IS TO INCREASE 150 PERCENT, IN MINING 125 PERCENT AND IN WOOD AND PAPER 230 PERCENT. INVESTMENTS IN STEEL WILL BE ADEQUATE TO FINISH EXPANSION PROGRAMS UNDERWAY AND TO MAKE THEM VIABLE. ALTERNATIVE MEANS OF INCREASING PRODUCTION ARE UNDER CONSIDERATION. NO SPECIFIC MENTION IS MADE OF PURSUING THE SECOND STAGE OF LAS TRUCHAS STEEL WORKS.

6. WE WERE SURPRISED BY THE LARGE INCREASE IN SOCIAL DEVELOPMENT EXPENDITURES AS THESE WERE NOT MENTIONED AS AN INVEST-

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MENT PRIORITY IN THE DEC 1 SPEECH, MORE SCHOOL FACILITIES AT ALL LEVELS WILL BE CONSTRUCTED, MORE MEDICAL FACILITIES WILL BE CONSTRUCTED, MORE PEOPLE WILL BE COVERED BY SOCIAL SECURITY PROGRAMS, AND ADDITIONAL POTABLE WATER FACILITIES WILL BE CONSTRUCTED.

7. THE PROPOSED INCREASE IN EXPENDITURES FOR TRANSPORTATION AND COMMUNICATIONS IS THE SMALLEST AMONG THE SIX BASIC SECTORS. THE BUDGET MESSAGE PROMISES SPENDING ON BOTH NEW FACILITIES AND ADEQUATE FUNDS TO MAINTAIN EXISTING FACILITIES.

8. THE INCREASE IN SPENDING ON TOURISM IS NOT GREAT IN ABSOLUTE TERMS AND IS TO BE EXPECTED IN LIGHT OF ITS IMPORTANCE AS A FOREIGN EXCHANGE EARNER. EXISTING PROJECTS ARE TO BE CONTINUED AND A NEW PROJECT BEGUN IN BAJA CALIFORNIA.

9. THE INCREASE IN ADMINISTRATION EXPENDITURES IS BLAMED ON THE HIGHER COST OF SERVICING THE FEDERAL GOVERNMENT'S DEBT. THIS IS TO BE 80.8 BILLION PESOS IN 1977. WE DO NOT YET HAVE A COMPARABLE FIGURE FOR 1976.

10. THE BUDGET MESSAGE CONTAINS NUMEROUS REFERENCES TO REORGANIZATION OF GOVERNMENT AGENCIES AND, PRESUMABLY, BETTER CONTROL OVER PUBLIC SECTOR EXPENDITURES. THIS IS REASSURING, BUT WE WOULD STILL VIEW THE JLP ADMINISTRATION'S CAPACITY TO CONTROL SPENDING WITH A SOMEWHAT JAUNDICED EYE. IT IS LIKELY, HOWEVER, THAT THE SLIPPAGE COULD COME MORE ON THE REVENUE SIDE THAN THE EXPENDITURE SIDE. FOR EXAMPLE, THE REVENUE FIGURES IN THE 1976 BUDGET IN PARAGRAPH FOUR OF REF B) MAY HAVE BEEN OPTIMISTIC. USING THE SAME RATIO FOR THE PERIOD JANUARY-SEPTEMBER TO YEAR 1975, WE WOULD PROJECT 1976 FEDERAL GOVERNMENT REVENUES AT ABOUT 135 BILLION PESOS RATHER THAN THE 153 BILLION PESO FIGURE USED IN THE 1976 BUDGET PRESENTATION. IF OUR 1976 ESTIMATE IS ACCURATE, THE GOM IS CONTEMPLATING A 58.8 PERCENT INCREASE IN GOVERNMENT REVENUES. THIS WOULD BE A SUBSTANTIAL INCREASE IN REAL TERMS AND VERY

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PAGE 04 MEXICO 15908 180048Z

DIFFICULT TO ACHIEVE EVEN IN A RAPIDLY GROWING ECONOMY. NEW REVENUE MEASURES ARE BEING ANNOUNCED AND WE SHALL REPORT MORE ON THESE AND THE POSSIBILITY OF FINANCING A 221 BILLION PESO DEFICIT LATER.

11. GOM DOES NOT ISSUE AN OFFICIAL ECONOMIC FORECAST. THE BUDGET IS VIRTUALLY THE ONLY PUBLIC STATEMENT THAT GIVES ANY INDICATION OF WHAT MIGHT HAPPEN TO THE ECONOMY IN THE FORTHCOMING YEAR, AND IN THIS CONNECTION, THERE IS ONLY ONE FIGURE, THE PRICE DEFLATOR, AND THAT IS NOT EXPLICIT. THE BUSINESSMEN AND BANKERS THAT WE TALK TO DO NOT ANTICIPATE PRICE INCREASES OF 30 TO 35 PERCENT AND THE GOVERNMENT'S LABELING THE BUDGET AS ANTI-INFLATIONARY CAN ONLY REINFORCE THIS VIEW. FURTHER, THESE PEOPLE DO NOT NECESSARILY ANTICIPATE THE IMPACT A RATE OF INFLATION THIS HIGH COULD HAVE ON THE EXCHANGE RATE. ONE MONEYBROKER WROTE HIS U.S. CLIENTS THAT HE BELIEVED THE 20:1 EXCHANGE RATE COULD BE MAINTAINED THROUGHOUT THE JLP ADMINISTRATION. WE CANNOT HELP BUT BELIEVE THERE WILL BE SOME SURPRISED AND DISAPPOINTED MEXICANS WHEN THEY REALIZE THAT THE POST-DEVALUATION INFLATION HAS NOT YET ABATED. THEY COULD REACT BY MOVING FUNDS INTO DOLLARS IN LARGE AMOUNTS ONCE MORE.

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PAGE 01 MEXICO 15938 202232Z
ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
CIEP-02 SS-15 STR-04 DMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
SEC-01 DODE-00 PM-04 H-02 L-03 PA-02 PRS-01 /104 H
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R 202028Z DEC 76 20
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9287
INFO TREASURY WASHDC

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UNCLAS MEXICO 15938

E.O. 11652: N/A
TAGS: EFIN MX
SUBJ: NEW PUBLIC DEBT LAW

1. SUMMARY. ON DECEMBER 17, TREASURY SECRETARY ANNOUNCED A PROPOSED GENERAL LAW ON THE PUBLIC DEBT THAT WILL STRENGTHEN TREASURY'S CONTROL OVER PUBLIC SECTOR BORROWING. ESTIMATED PUBLIC SECTOR EXTERNAL DEBT FOR END-1976 IS 20 BILLION.

END SUMMARY.

2. PROPOSED GENERAL LAW ON THE PUBLIC DEBT DEFINES PUBLIC DEBT AS BEING FINANCIAL LIABILITIES OF FEDERAL GOVERNMENT, FEDERAL DISTRICT, DECENTRALIZED ORGANISMS, COMPANIES IN WHICH THE GOVERNMENT IS A MAJORITY SHAREHOLDER, NATIONAL CREDIT INSTITUTIONS AND GOVERNMENT TRUSTS. ALL FOREIGN AND DOMESTIC BORROWING BY THESE ENTITIES MUST HAVE PRIOR APPROVAL OF THE TREASURY AND TO OBTAIN THIS APPROVAL, THE ENTITIES MUST PROVIDE APPROPRIATE FINANCIAL PLANS TO THE TREASURY. THERE MUST ALSO BE SOME EVIDENCE THAT THEY CAN REPAY THE DEBTS.

3. THE CONGRESS MUST APPROVE THE OVERALL VOLUME OF



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PAGE 02

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FINANCING AND INFORMATION ON THIS IS TO BE MADE AVAILABLE IN THE ANNUAL ACCOUNTS OF THE TREASURY. DATA ON BORROWINGS FOR "MONETARY REGULATION" WILL NOT BE MADE PUBLIC. LAW ALSO CREATES AND ADVISORY COMMITTEE ON PUBLIC SECTOR EXTERNAL DEBT TO BE CHAIRED BY TREASURY TO ADVISE THE SECRETARY.

4. LAW PROVIDES THAT FEDERAL GOVERNMENT BORROWINGS WILL CARRY "FULL FAITH AND CREDIT" OF UNITED MEXICAN STATES, AND THAT TREASURY CAN GIVE FEDERAL GOVERNMENT GUARANTEE TO BORROWINGS USED FOR ECONOMIC DEVELOPMENT PROJECTS THAT WILL GENERATE RESOURCES FOR REPAYMENT OF DEBT. LAW DOES NOT EXTEND "FULL FAITH AND CREDIT" PROVISION TO ANY NEW PUBLIC SECTOR ENTITIES.

5. AT PRESS CONFERENCE, MOCTEZUMA WAS ASKED IF MEXICO WERE RENEGOTIATING ITS DEBT. HE REPORTEDLY REPLIED THAT DEBT IS VERY FLEXIBLE AND SOME PARTS OF IT ARE BEING RENEGOTIATED WHEREAS OTHER PARTS ARE BEING REPAID.

6. GOM ALSO ISSUED ESTIMATE OF ITS FOREIGN DEBT AS OF DECEMBER 31, 1976, AS FOLLOWS IN MILLION OF DOLLARS.

A. TOTAL	20,000
B. DEBT WITH MATURITY OVER ONE YEAR	15,845.6
1. FEDERAL GOVERNMENT	2,123.3
2. PUBLIC SECTOR ORGANISMS AND BUSINESSES	7,257.3
3. FEDERAL DISTRICT AND MEXICO CITY METRO	871.5
4. OTHER NON-FINANCIAL ORGANISMS	1,949.0



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PAGE 03

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5. FINANCIAL INTER-MEDIARIES	3,544.5
C. SHORT-TERM	4,154.4
1. PUBLIC SECTOR ORGANISMS AND ENTERPRISES	628.0
2. OTHER NON-FINANCIAL ORGANISMS	60.0
3. FINANCIAL INTERMEDIARIES	3,465.6
JQVA	



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PAGE 01 MEXICO 15939 202235Z
ACTION APA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01
INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02 CIEP-02
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R 202058Z DEC 76 20
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9288
INFO TREASURY WASHDC

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International Information Center

UNCLAS MEXICO (15939)

E.O. 11652: N/A
TAGS: EPIN MX
SURJC NEW SILVER COIN

1. SUMMARY: AS PROMISED IN HIS DECEMBER 1 SPEECH LOPEZ-PORTILLO HAS PROPOSED A LAW THAT WOULD PERMIT MINTING OF A 100 PESO COIN CONTAINING 20 GRAMS OF SILVER. WHILE SOME VIEW THIS AS A GIMMICK, OTHERS MAINTAIN IT WOULD HAVE SIGNIFICANT PSYCHOLOGICAL IMPORTANCE IN A COUNTRY WHERE SILVER HAS PLAYED SUCH A LARGE ROLE. END SUMMARY.

2. ON DECEMBER 17, TREASURY SECRETARY ANNOUNCED THE PROPOSED AMENDMENT TO MEXICO'S MONETARY LAW THAT WOULD PERMIT MINTING A 100 PESO COIN THAT WOULD CONTAIN 20 GRAMS OF PURE SILVER AND WEIGHT 27.777 GRAMS. THE BALANCE OF THE COIN WILL BE COPPER. THE COINS SHOULD BE PUT INTO CIRCULATION EARLY IN 1977.

3. WE CALCULATE THAT THE MARKET VALUE OF THE SILVER WOULD BE ROUGHLY 2.80 OR ABOUT 56 PESOS. THE GOVERNMENT THEREFORE STANDS TO MAKE A SUBSTANTIAL PROFIT ON THE COINS. AS LONG AS THE METAL'S VALUE REMAINS BELOW THE FACE VALUE, THEY MAY STAY IN CIRCULATION.



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4. SOME OBSERVERS HAVE CALLED THE IDEA OF MINTING SILVER COINS A GIMMICK THAT WILL MERELY DRAIN SAVINGS INTO MATTRESSES. THIS PRESUMED THAT THE SILVER VALUE OF THE NEW COINS WOULD EQUAL THE FACE VALUE WHICH IS NOT THE CASE AT THE PRESENT TIME. OTHER OBSERVERS MAINTAIN THE SCHEME SHOULD HELP RESTORE SOME DEGREE OF CONFIDENCE IN THE CURRENCY SIMPLY BECAUSE SILVER HAS PLAYED SUCH A MAJOR ROLE IN MEXICO'S HISTORY AND IN ITS CURRENCY.

5. SILVER COINAGE WAS PROMISED IN JLP'S DECEMBER 1 SPEECH AS ONE OF TWO SPECIFIC MEASURES TO COUNTER THE "DOLLARIZATION" OF THE MEXICAN ECONOMY. THE OTHER MEASURE WAS TO BE INDEXED BONDS, BUT NO SPECIFICS ON THIS HAVE BEEN ANNOUNCED.
JOVA

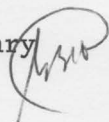


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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

December 21, 1976

To: Chairman Burns

From: George B. Henry 

Attached is the latest cable on the Mexican economic situation.

Attachment: Mexico 15826

cc: Governor Wallich

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PAGE 01 MEXICO 15826 170145Z
ACTION: ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
CIEP-02 IRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 AGRE-00 /091 W

036947 /21

R 162300Z DEC 76 16
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9235
INFO TREASURY WASHDC

UNCLAS MEXICO 15826

Please refer to
International Information Center

E.O. 11652: N/A
TAGS: EFIN MX
SUBJ: COMPARISON OF 1976 AND 1977 BUDGETS.

REF: MEXICO 15770

1. PARAGRAPH 2 BREAKS DOWN THE SPENDING BY MAJOR ENTITY AS PROPOSED IN 1977 BUDGET, COMPARED TO 1976 BUDGET. PARAGRAPH 3 BREAKS DOWN TOTAL SPENDING BY SECTOR FOR 1976 AND 1977, EXCLUDING THE COMPENSATING OPERATIONS.

THE FIGURES IN PARENTHESES ARE FOR INVESTMENT. PARAGRAPH FOUR SHOWS REVENUE ESTIMATES FOR 1976 AND 1977. THIS FIGURE INCLUDES THE COMPENSATING TRANSACTIONS. THESE ARE TRANSFERS OF TAX REVENUE TO LOCAL GOVERNMENTS, SUBSIDY PAYMENTS FINANCED BY TAX REVENUES AND MEMORANDUM ACCOUNTS OF PUBLIC SECTOR ENTITIES. WE DO NOT HAVE A BREAKDOWN OF ESTIMATED SPENDING FOR 1976. JUDGING FROM THE 1977 BUDGET PRESENTATION, ESTIMATED SPENDING IN 1976 IS 443.7 BILLION PESOS, 12.2 PERCENT ABOVE THE ORIGINAL BUDGET. THIS IS SOMEWHAT LOWER THAN SPENDING OVERRUNS IN PREVIOUS YEARS WHICH WAS 15 PERCENT IN 1975, 20 PERCENT IN 1974 AND 17 PERCENT IN 1973. ALL FIGURES IN FOLLOWING



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PARAGRAPHS ARE IN BILLIONS OF PESOS. COMMENT IS BEING REPORTED IN A SEPARATE CABLE.

2. SPENDING BY ENTITY.

	1976	1977
A. FEDERAL GOVERNMENT	209.5	313.7
MINISTERIAL BUDGETS	94.9	144.5
INVESTMENTS	22.1	30.9
ADDITIONAL EXPENDITURES	47.5	57.5
PUBLIC DEBT (PRINCIPAL AND INTERST)	45.0	80.8
B. PUBLIC SECTOR	182.9	302.6
PEMEX	49.6	94.9
CFE	21.8	42.7
CONASUPO	22.6	24.8
SOCIAL SECURITY	27.4	38.7
OTHER	61.5	101.5
C. SUBTOTAL	392.4	616.3
D. COMPENSATING OPERATIONS	47.2	61.1
FEDERAL GOVERNMENT	28.5	35.1
PUBLIC SECTOR	18.7	25.0
E. TOTAL	439.6	677.4

3. SPENDING BY SECTOR.

	1976	1977
A. AGRICULTURE	78.5 (21.7)	103.5 (31.0)



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B. INDUSTRIAL	116.6 (33.0)	205.5 (59.5)
C. SOCIAL DEVELOPMENT	90.0 (8.2)	134.4 (16.0)
D. TRANSPORT. & COMMUNICATION	39.9 (15.2)	44.8 (15.7)
3. TOURISM	1.4 (.7)	2.2 (1.0)
F. ADMINISTRATION	66.0 (2.0)	125.9 (3.6)
TOTAL	392.4 (80.2)	616.3 (126.9)
4. REVENUE		
A. TAX REVENUE	146.9	201.0
1. INCOME TAX	56.0	76.6
2. TAX ON PRODUCTION & COMMERCE	35.5	42.9
3. GROSS RECEIPTS TAX	28.5	40.6
4. IMPORT TAXES	14.6	17.3
5. EXPORT TAXES	4.4	13.1
6. OTHER	7.9	10.5
B. MISCELLANEOUS REVENUE	8.0	13.4
C. SOCIAL SECURITY	24.3	37.0
D. INCOME OF PUBLIC SECTOR ENTITIES	143.5	205.0

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E. REVENUES FROM BORROWING

117.1

221.0

TOTAL

439.6

677.4

THOMPSON




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23

December 22, 1976

TO: Chairman Burns

FROM: George B. Henry 

Attached are the latest cables on the Mexican economic situation.

Attachments: Mexico 15993
Mexico 15963

cc: Governor Wallich

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





Department of State

Mexico
TELEGRAM

EMT, SS

CONFIDENTIAL # 4844

PAGE 01 MEXICO 15993 212144Z
ACTION ARA-17

INFO OCT-01 ISO-00 NSCE-00 INRE-00 PA-01 PRS-01 USIE-00
SSO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03 INR-07
NSAE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SYL-01
OMB-01 NSC-05 SS-15 STR-04 CEA-01 ABF-01 /075 W
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O 212125Z DEC 76 ZFF-6
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC IMMEDIATE 9314
INFO TRSY WASHDC IMMEDIATE

~~CONFIDENTIAL~~ MEXICO 15993

dal 7125107

E.O. 11652:GDS
TAGS:EFIN MX
SUBJ: BANKS RE-ENTER FOREIGN EXCHANGE MARKET.

1. SUMMARY: BANK OF MEXICO HAS PERMITTED THE COMMERCIAL BANKS TO RE-ENTER THE FOREIGN EXCHANGE MARKET. SEVERAL NEWSPAPER ARTICLES STATE THAT THIS IMPLIES THAT PESO IS NOT AT ITS "DEFINITIVE" LEVEL. END SUMMARY.

2. EFFECTIVE DECEMBER 20, COMMERCIAL BANKS WERE PERMITTED TO RE-ENTER THE FOREIGN EXCHANGE MARKET FOR THEIR OWN ACCOUNT. SINCE NOV 22, THE BANKS HAD BEEN EXCLUDED FROM THE MARKET, AND FOREIGN EXCHANGE TRANSACTIONS HAD BEEN DONE FOR THE ACCOUNT OF BROKERAGE HOUSES. BROKERAGE HOUSES CAN CONTINUE TO ENGAGE IN FOREIGN EXCHANGE TRANSACTIONS.

3. THE BANK OF MEXICO APPARENTLY WANTED TO MAKE THIS CHANGE WITHOUT ANY PUBLICITY, BUT WORD SOON CIRCULATED AND MOST MEXICO CITY NEWSPAPERS OF DEC 21 CARRY THE STORY; SEVERAL HEADLINE THE STORY. FOR THE PUBLIC, THERE IS VIRTUALLY NO DIFFERENCE IN THE WAY THEY BUY AND SELL FOREIGN EXCHANGE SINCE MOST TRANSACTIONS WERE HANDLED THROUGH BANKS.



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MEXICO 15993 212144Z

4. THE EXCLUSION OF THE COMMERCIAL BANKS FROM THE FOREIGN EXCHANGE MARKET WAS CONSIDERED A TEMPORARY MEASURE. A BANK OF MEXICO SOURCE TOLD US THAT HIS TIME WAS PICKED BECAUSE THE CHRISTMAS HOLIDAYS HAVE BEGUN AND THE FOREIGN EXCHANGE MARKET IS NORMALLY QUIET. ALSO, THE SUPPLY OF DOLLARS IS RELATIVELY STRONG AT THIS TIME OF YEAR. VERY LIKELY, THE DEMAND FOR DOLLARS IS DOWN BECAUSE OF THE DECLINE IN OUTWARD TOURISM. APPARENTLY THE BANK OF MEXICO IS REMAINING OUTSIDE THE MARKET FOR THE TIME BEING, BUT ACCORDING TO OUR SOURCE AND THE NEWSPAPER ACCOUNTS, THE BANK OF MEXICO IS RESERVING THE RIGHT TO INTERVENE WHEN AND IF NECESSARY. OUR SOURCE DECLINED TO ELABORATE ON WHAT THIS MEANT, EXCEPT THAT THE CENTRAL BANK WOULD PREVENT "WIDE" SWINGS IN THE RATE.

5. THE NEWSPAPER ACCOUNTS IMPLY THAT THE PRESENT EXCHANGE RATE IS SUSTAINABLE. FOR EXAMPLE, EXCELSIOR STATES "THERE IS A FIRM BELIEF IN FINANCIAL CIRCLES THAT THE PESO IS NOW SEEKING ITS DEFINITIVE LEVEL." HERALDO SAYS THE NEW MEASURE "IS A CLEAR INDICATION THAT THE PESO IS REACHING ITS TRUE LEVEL."

6. WHILE THE ARTICLES DO NOT SUGGEST THAT THE BANK OF MEXICO WILL SUPPORT THE PRESENT RATE, WE CANNOT HELP BUT BE STRUCK BY YET ANOTHER INDICATION THAT MEXICANS WHO SHOULD KNOW BETTER SEEM TO THINK THAT A 20:1 EXCHANGE RATE IS HERE TO STAY.

7. THE EXCHANGE MARKET WAS REPORTEDLY CALM ON DECEMBER 21, WITH BUYING RATE OF ABOUT 20.5 AND SELLING RATES AROUND 20.175. THIS IS ROUGHLY THE SAME AS DECEMBER 17 QUOTATIONS.

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Mexico

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EMT:SS

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PAGE 01 MEXICO 15963 211342Z
ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00 FOR-01
INR-07 NSAE-00 USIA-15 XMB-04 OPIC-00 SP-02 CTRP-07
LAB-04 SIL-01 OMB-01 /066 W

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R 210008Z DEC 76
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9301
INFO TREASURY WASHDC

UNCLAS MEXICO 15963

E.O. 11652: N/A
TAGS: EPIN MX
SUBJ: TAX CHANGES

1. SUMMARY: PROPOSED TAX CHANGES INCLUDE 10 PERCENT INVESTMENT TAX CREDIT, "EXCESS" PROFITS TAX, LOWER INCOME TAX RATES FOR INDIVIDUALS EARNING UP TO 50,000 PESOS A YEAR, HIGHER SALES TAXES ON BEER, TOBACCO AND A VARIETY OF LUXURY GOODS, AND HIGHER AUTOMOBILE-USE TAXES. END SUMMARY.

2. INCOME TAX: RATES ON INDIVIDUALS WITH INCOMES UP TO 50,000 PESOS ANNUALLY, OR APPROXIMATELY DOUBLE THE MINIMUM WAGE WILL BE REDUCED. RATES ABOVE THIS LEVEL WILL REMAIN THE SAME. REDUCTION IN RATES FOR LOWER INCOME GROUP LABELLED A FINANCIAL LOSS, BUT NECESSARY TO MAINTAIN PURCHASING POWER OF THESE GROUPS. RATES ON INCOMES ABOVE ROUGHLY 50,000 PESOS WERE NOT CHANGED WHICH MEANS THEIR TAX BURDEN WILL INCREASE.

3. A TEN PERCENT TAX CREDIT TO BE USED AGAINST CORPORATE INCOME TAX LIABILITY WAS INTRODUCED. THE TAX CREDIT HAS TO BE TAKEN OVER A FOUR-YEAR PERIOD AND WILL BE GRANTED FOR INVESTMENT IN NEW MACHINERY IN ACCORD WITH RULES YET TO BE RELEASED. THE ENTIRE AMOUNT OF



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THE NEW INVESTMENT CAN BE DEPRECIATED.

4. AN EXCESS PROFITS TAX WAS ESTABLISHED, OSTENSIBLY TO CAPTURE GAINS MADE AS A RESULT OF THE DEVALUATION. BASIS FOR DETERMINING IF THERE ARE EXCESS PROFITS WILL BE THE SUM OF GROSS PROFITS OVER THE PREVIOUS THREE FISCAL YEARS DIVIDED BY THE SUM OF TOTAL REVENUE OVER THE SAME PERIOD. THE QUOTIENT WILL BE COMPARED TO THAT FOR THE PREVIOUS FISCAL YEAR. THE LARGER OF THE TWO WILL BE MULTIPLIED BY TOTAL REVENUES FOR THE CURRENT YEAR. THE RESULT IS THE AVERAGE GROSS PROFIT OF THE TAXPAYER. THE BASE FOR THE EXCESS PROFITS TAX WILL BE THE DIFFERENCE BETWEEN GROSS PROFITS FOR THE CURRENT YEAR MINUS THE AVERAGE GROSS PROFIT FIGURE. THE TAX RATE WILL BE THE QUOTIENT OF THE BASE DIVIDED BY INCOME DURING THE CURRENT YEAR TIMES 1000, BUT SHALL NOT EXCEED FIFTY. THIS SEEMS VERY COMPLICATED.

5. OTHER CHANGES IN THE INCOME TAX LAW INCLUDE THE PROVISION THAT FOREIGN EXCHANGE LOSSES MAY BE TAKEN IN THE YEAR THEY OCCUR, OR MAY BE TAKEN OVER FOUR YEARS. THE COST OF MAINTAINING LARGE AUTOMOBILES ARE NOT DEDUCTIBLE FOR INCOME TAX PURPOSES. THE RULES ON CAPITAL GAINS FROM REAL ESTATE WERE TIGHTENED SOMEWHAT.

6. THE SPECIFIC TAX ON BEER AND TOBACCO PRODUCTS HAS BEEN INCREASED SO THAT THE EFFECTIVE RATE IS RESTORED TO WHAT IT WAS PRIOR TO THE PRICE INCREASES GRANTED THIS YEAR.

7. THERE HAVE BEEN A NUMBER OF INCREASES IN THE GROSS RECEIPTS OR SALES TAX (INGRESOS MERCANTILES). THE NUMBER OF FIRMS OR INSTITUTIONS SUBJECT TO THE TAX HAS BEEN INCREASED, TO INCLUDE ASSOCIATIONS AND OTHER GROUPS WHOSE ACTIVITIES ARE ESSENTIALLY COMMERCIAL. THIS MAY APPLY TO "NON-PROFIT" ORGANIZATIONS. THE BASIC SALES



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TAX IS 4 PERCENT.

8. SALES TAX RATES ON NEW AUTOMOBILES ARE AD VALOREM, BUT BASED ON THE OFFICIAL PRICE OF THE CARS. THE AD VALOREM RATES REMAIN THE SAME, BUT THE OFFICIAL PRICES TO WHICH THEY APPLY HAVE BEEN RAISED. FOR EXAMPLE, THE 5 PERCENT RATE APPLIED TO 1975 MODEL CARS WHOSE PRICE WAS LESS THAN 48,000 PESOS. THE FIVE PERCENT RATES WILL APPLY TO 1977 MODELS WHOSE PRICE IS LESS THAN 87,000 PESOS. THE TEN PERCENT LEVY WILL NOW APPLY TO LIGHTERS, COSMETICS, SOME TYPES OF SPORT EQUIPMENT, HIGHER PRICED WOOD FURNITURE AND LAMPS, HAIR DRYERS, ETC. THE 15 PERCENT RATE WILL APPLY TO AUTO ACCESSORIES, CRYSTAL. THE 30 PERCENT RATE WILL APPLY TO EXPENSIVE WATCHES, DIAMONDS AND OTHER PRECIOUS STONES AND THEIR SETTINGS, EQUIPMENT FOR POLO, GOLF, RIDING, AND SWIMMING POOLS, AND TO CABLEVISION.

9. THE YEARLY AUTOMOBILE-USE TAX HAS ALSO BEEN INCREASED. THIS IS A FIXED RATE TAX THAT HAS BEEN ADJUSTED ONLY TO COMPENSATE FOR INFLATION, ACCORDING TO A TREASURY SPOKESMAN.

10. SEVERAL ANTICIPATED CHANGES WERE NOT MADE. THE 15 PERCENT SALES TAX ON RESTAURANT MEALS REMAINS AS DOES THE 21 PERCENT ON INTEREST PAYMENTS ABROAD.
JOVA



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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1976 DEC 23 PM 4:20

RECEIVED
OFFICE OF THE CHAIRMAN

December 23, 1976

TO: Chairman Burns

FROM: George B. Henry

Attached are the latest cables on the
Mexican economic situation.

Attachments: Mexico A-05
Mexico 15786

cc: Governor Wallich

Defense classification of this document is due
to the inclusion of U.S. Government information
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DEPARTMENT OF STATE
AIRGRAM 760187-1463

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HANDLING CLASSIFICATION LIMITED OFFICIAL USE MESSAGE REFERENCE NO. A-05

TO: AmEmbassy MEXICO
 INFO: Department of State, ARA/MEX
 FROM: AmConsulate MERIDA
 E.O. 11652: N/A
 TAGS: MX, ECON, EFIS, CVIS
 SUBJECT: Monthly Report: October 16 - November 23, 1976
 REF:



ADRC/DA/WC
 5 DEC -2 PM 2:14
 DEPARTMENT OF STATE

DATE: Nov. 23, 1976

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XMB			

POLITICAL-ECONOMIC

The strike by the shrimp fishing cooperatives was settled shortly after submission of last month's report. The strike which lasted for 34 days and involved some 1200 boats, cost Campeche and parts of Tabasco millions of pesos. The cooperatives finally gave in to the boat owners plan, although the fishermen did realize an overall gain of about 67% in their income. When the second devaluation came, there was talk of another strike for additional increases, but both sides were so exhausted that they decided to continue operations under the new agreement. A reduction by 50% in the new export duties on shrimp was an added stimulus to keep on the job.

The decrease in export duties for fish fillets, lobster and other sea food put the other fishing fleets back to work and the paralysis that had taken over in fishing towns such as Progreso came to a halt.

While the fishermen were prospering to a degree, the campesinos remained in difficulties. A cattlemen-farmer dispute, in the old classic style, broke out in the central part of the State of Yucatan. The ejidos claimed the private cattlemen were fencing off their land and the cattlemen protested that the land did not belong to the ejidos at all. The situation was complicated by the fact that the cattlemen were backed by the

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76 DEC 15 AM 9:00

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DRAFTED BY: AmConsul Merida:RSashford:eaw DRAFTING DATE: 11/23/76 PHONE NO.: 1-60-30 CONTENTS AND CLASSIFICATION APPROVED BY: AmConsul MERIDA:ROBERT S. ASHFORD

CLEARANCES:

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Yucatan State President of PRI - who apparently had a financial interest in the cattle. While it is suspected that the campesinos will come off second best in this particular dispute, some five thousand campesino families in the Yucatan finally received title to lands they had been occupying for 39 years. The delay was attributed to "...bureaucratic error". It is interesting to note that in this case the indemnization for the land will go to several ejido organizations. These five thousand families are, ideologically, on the side of the "pequeño propietario"; therefore, the situation in the Yucatan is quite a bit different from that existing in Sonora and Sinaloa. Reaction to events in those two states has been completely against the President and in favor of the land owners. Several sources, including a Mexican Federal official, believe the decision made to expropriate the lands in Sonora was done deliberately to divide the nation. In fact, the local Chamber of Commerce is meeting on November 24th to decide if they should adopt the course of the Chamber of Commerce in Sinaloa. If they decide to do so, most business, commercial and agricultural activities will stop until December 1, 1976.

Meanwhile, to add to the woes brought about by devaluation, CORDEMEX reports its exports for the first half of 1976 fell some 23.6% over last year's figures; further, the amount of land devoted to the cultivation of henequin has been reduced by 30,000 hectares in the past three years. As a result, unemployment of campesinos, always a major problem in the Yucatan, now has reached an all-time high.

Flight of capital from this area has been increasing over the past two years --as previously reported in some detail. However, activities during the week of November 15 approached the panic level as persons of all walks of life attempted to convert pesos to dollars. While no figures have been released, one bank manager stated that the run on dollars reached an unprecedented high on Friday, November 19.

On Monday, November 22, the restrictions on the convertibility of the peso gave the business community of Merida a traumatic blow from which they still are reeling. The Pan American flight, with more than 70 reservations for Miami, left with three passengers. The Consulate had three visa applicants on Monday, an all time low! Reportedly five shirt factories closed their doors while hotels and tourist agencies, recently cheered-up by an increasing tourist trade, ground their teeth in despair. A number of US visitors came to the Consulate looking for somebody who would change their travelers checks. The confusion and despair was evident everywhere; commercial activity and business transactions practically came to a halt. There were a number of cases of tourists who were grossly taken advantage of at the airport when they desperately needed fifty pesos to pay the departure tax and all they had was a \$50 or \$100 US travelers check. As of this writing, things are somewhat more normal. Tourists have found ready sources of exchange for their dollars with enterprising taxi drivers and hotel clerks getting a piece of the action. Dollars in reasonable amounts also are available, but through the Bank of Mexico only.

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Although dollars no longer are available readily in large quantities, the run on the banks continues. This time it is to withdraw pesos from savings accounts before they are in some way confiscated or controlled by the Government. With the worst of their expectations realized with respect to devaluation and convertibility of the peso, it is not difficult to understand the public giving rumors of this nature such currency.

As in other parts of Mexico, all sorts of rumors, some of them quite macabre, permeated Merida from the 15th of November right up to the time of this writing. At the high point of these rumors, President Echeverria was dedicating petro-chemical plants in the State of Tabasco -- so this enabled the more discriminating citizens to discount some of the rumors pertaining to the person of the President and properly categorize them as mere wishful thinking.

In the midst of the confusion and pain related to the peso, the Bank of Mexico inaugurated its magnificent new regional headquarters building in Merida. Built at a published cost of 30 million pesos, the building boasts of the most modern security and fire alarm system in Mexico. Furnishings and equipment cost an additional amount which was not disclosed. Although a very modern and truly handsome building, the government was severely criticized by news media and private individuals for its extravagance at this point in time.

MISCELLANEOUS:

On November 17th, it was reported that an armed group of students had taken over the University of Tabasco and that one student had been machine-gunned by the insurgents, who were identified as being members of the Frente Estudiantil Democrata. A quick call to a close contact in Villahermosa revealed that the problem was between two groups of students, but that it was not believed to be very serious. Nothing further was published regarding this incident and it appears to have been "swept under the rug".

In spite of the economic set-backs, optimism appears to bloom eternal in the Yucatan insofar as the tourist trade is concerned. FONATUR, the Government backed Tourist Development Agency, announced it had started construction of two modern hotels in the Yucatan, one at the Ruins of Chichen Itza and the other at the Ruins of Uxmal. While the private hotels at these locations sometimes are full at the height of the winter season and at Semana Santa, it does not appear to the reporting officer that projects of this size and nature can be justified at this time - unless of course FONATUR plans to put the private hotels out of business -- a supposition which to the owners does not appear unreasonable.

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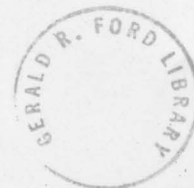
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In addition, TACA Airlines, a privately owned airline based in El Salvador, inaugurated thrice weekly flights between El Salvador, Belice, Merida and New Orleans. Equipment in use will be a BAC One-Eleven. Notables from Salvador and New Orleans were poured off the inaugural flights to Merida amid great fanfare. Oddly enough, apparently no commercial air agreement exists between Mexico and Belice. Therefore, no passengers from Belice may deplane in Merida or visa versa. This is a serious bone of contention with businessmen in this area who feel both countries would profit through closer commercial ties.

Devaluation has lead to serious unemployment problems particularly in Cancun where the flow of new building supplies from abroad has come to a halt. In spite of the Government's resolve not to permit favella developments of poor people seeking employment in Cancun, the worst has happened and the service city of Cancun is almost surrounded by a second "shack city". With the spigot of plenty turned off these people are in serious trouble. Without a number of critical building supplies and hardware from the USA, new construction and maintenance jobs no longer are plentiful. Further, the tourist zone in Cancun is the only real source of work in the area - the rest is wilderness. The construction industry in general is suffering the effects of devaluation because all products, whether manufactured in Mexico or abroad, have undergone a dramatic increase in price. Campeche in particular has reported that the construction industry practically is at a standstill. The unemployment brought about thereby is of real concern to the officials of that city.

CONSULAR:

As noted in previous reports, devaluation of the peso has brought about a dramatic decrease in the number of nonimmigrant visa applications. In October, the number of applicants was a mere 365 while through the 22nd of November only 226 persons made application. This is, roughly speaking, down 40% over a comparable period last year. Work associated with an increasing volume of American tourists has, however, begun to supplant the nonimmigrant visa workload.

ASHFORD




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PAGE 01
ACTION ARA-10

MEXICO 15788 161759Z

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 STR-04
EB-07 OMB-01 COME-00 FRB-03 TRSE-00 CIEP-01 /072 W

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E.O. 11652: N/A
TAGS: EGEN, MX
SUBJECT: MEXICAN GOVERNMENT REORGANIZATION

REF: MEXICO 15787

1. IN COURSE OF DISCUSSION REPORTED REFTTEL, FOREIGN MINISTRY DIRECTOR GENERAL INTERNATIONAL ECONOMIC AFFAIRS DIAZ THOME GAVE EMBOFFS GLIMPSE OF PROPOSED ECONOMIC MINISTRY ORGANIZATION TO BE EFFECTIVE JAN 1. SECRETARIAT OF INDUSTRY AND COMMERCE (SIC) WILL BE SPLIT IN TWO:
A) SECRETARIAT FOR INDUSTRIAL DEVELOPMENT WILL DRAW ALL INDUSTRIAL FUNCTIONS FROM SIC, AS WELL ADMINISTRATION OF PARASTATAL COMPANIES FROM PRESENT PATRIMONIO NACIONAL.
B) SECRETARIAT OF COMMERCE WILL ASSUME ALL COMMERCE RESPONSIBILITIES FROM THE PRESENT SIC, AND WILL ITSELF BE DIVIDED INTO 3 DIRECTORATE GENERALS: INTERNAL COMMERCE, FOREIGN COMMERCE, AND PLANNING. FOREIGN COMMERCE WILL DRAW MERCHANT MARINE RESPONSIBILITIES FROM THE PRESENT MARINA SECRETARIAT (MAKING MARINA A NAVY MINISTRY). FOREIGN COMMERCE WILL ALSO DRAW SUCH MATTERS AS RATE STRUCTURE CONTROL AND OTHER AS YET UNKNOWN RESPONSIBILITIES FROM THE TRANSPORTATION AND COMMUNICATION SECRETARIAT, AND CUSTOMS POLICY AND ADMINISTRATION AND TRADE POLICY AND NEGOTIATION FROM HACIENDA (FINANCE MINISTRY).



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PAGE 02

MEXICO 15788 161759Z

THIS LATTER WOULD INCLUDE COMMERCE CONTROL OVER GOM PARTICI-
PATION WITH SUCH ORGANIZATIONS AS GATT. IMCE (INSTITUTE OF
FOREIGN TRADE) WILL BE OPERATIONAL ARM DIRECTLY UNDER SUPER-
VISION OF FOREIGN COMMERCE.

2. DETAILS OF NEW ORGANIZATION ARE SKETCHY AS YET BUT WILL
UNDOUBTEDLY CLARIFY BY NEW YEAR. IT IS CLEAR, HOWEVER, THAT
CENTRALIZATION OF INDUSTRY AND COMMERCE FUNCTIONS IN NEW
MINISTRIES WILL GREATLY INCREASE THEIR SCOPE AND STRENGTH
VIS-A-VIS COMPETING GOM BUREAUCRACIES. AT PRESENT, IT IS A
MOOT POINT WHETHER THE NEW INDUSTRIAL DEVELOPMENT SECRETARIAT
IS ABSORBING PART OF PATRIMONIO NACIONAL OR VISA VERSA.
THOMPSON

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MEXICAN GOVERNMENT SECRETARIAT

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

December 28
1976 DEC 28 PM 3:49 1976

RECEIVED
OFFICE OF THE CHAIRMAN

TO: Chairman Burns

FROM: Ted Truman *EMT*

Attached is the latest cable on the Mexican economic situation.

Attachments: Mexico A-40

cc: Governor Wallich

Defense classification of this document is due to the inclusion of U.S. Government information officially classified under Executive Order 12958 which provides that "A document... shall have a classification at least as high as that of its highest classified component."



DEPARTMENT OF STATE
AIRGRAM

Mexico
P760191-1024

HANDLING CLASSIFICATION UNCLASSIFIED MESSAGE REFERENCE NO. A-40

TO: Amembassy MEXICO for CRU
(Sugg. Dist: AMB, DCM, POL, ECON (2), ADMIN, CG (2), CHRON)

INFO: Department of State ARA/MEX, Amcongen MONTERREY, Department of Commerce/BIC/OIM/ CMM-MEX

FROM: Amconsul Guadalajara DATE: December 8, 1976

E.O. 11652: NA

TAGS: PINT, ECON, BGEN, MX

SUBJECT: November 1976 Highlights from Guadalajara, Mexico

REF: Guadalajara A-39 of November 5, 1976

EMT

976 DEC 22 AM 9 22

FLIGHT SECTION
INTERNATIONAL OPERATIONS CENTER

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SUMMARY: The prophets of doom and rumors of revolution were proved wrong as November progressed, and by the December 1 Inauguration attention had refocused on pressing economic problems, such as the peso float, inflation, employment, fiscal and monetary policy, etc. Guadalajara experienced its fair share of crime, a new student union president was selected by his peers, State and Municipal elections were held in early December with no surprises, and land invasions both within and without this district were of continuing interest. END OF SUMMARY.

Political

1. Rumors, Rumors Everywhere: As the day approached (December 1) for the change in Administration, Guadalajara's rumor mills worked overtime to create even more uncertainty and fear in an already unstable atmosphere. Reaching a crescendo in the days prior to November 20, anniversary of Mexico's second revolution, the tales of revolution, coup d'etat, imprisonment and murder allegedly occurring in Mexico City were extraordinary, even temporarily overshadowing the usually overwhelming interest in the movement of the peso and its related effects. When November 20 came and passed peacefully, attention refocused on the peso's third devaluation in three months and subsequent recovery as the Presidential inauguration approached. A new

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DRAFTED BY: [Signature] DRAFTING DATE: 12/3/76 PHONE NO. CONTENTS AND CLASSIFICATION APPROVED BY: CG:MIOrtwein (in draft)

LEARANCES:

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wave of fear-creating rumors hit Guadalajara during the last week in November as pessimists insinuated that President Echeverría would never leave office on the appointed day, but the local hysteria never approached its earlier level. By December 1, the local populace, including businessmen, began to feel more optimistic that democratic traditions would survive for the moment in Mexico, and a considerably more positive tone could be heard in private conversations.

2. State and City Elections: The PARM Party (Partido Auténtico de la Revolución Mexicana, a subsidized satellite of the PRI) announced a list of candidates on November 9 for Guadalajara municipal posts. Candidate for mayor is Carlos MORETT Sedano who is unlikely to defeat the PRI candidate, Guillermo REYES Robles in the municipal elections on December 5. REYES Robles has been actively campaigning for two months and there is no real opposition candidate, now that the PAN party (Acción Nacional) is quiescent and not placing any candidates in state or municipal elections in Jalisco this year. Flavio ROMERO de Velasco, PRI candidate, is sure to be Jalisco's next governor following elections on December 5. He has been widely quoted as favoring a general disarmament of the local populace and an end to the system of powerful minor politicians ruling the countryside (caciques, from the Arawak-Indian word, kassequa, chief). (Note: All PRI candidates were elected on December 5 as expected.)

3. New FEG President: The new president of the powerful student union of the University of Guadalajara (Federación de Estudiantes de Guadalajara or the FEG) will be Raúl PADILLA López, ex-president of the student union of the School of Philosophy and Letters and also press secretary for the FEG. PADILLA López received the approval of representatives of 63 associated schools in Jalisco at a meeting held in Guadalajara on November 9. He will represent the 150,000 students at the University of Guadalajara and affiliated schools throughout Jalisco for the 1977-1979 term. Law student Rafael CASTELLANOS will be vice president and medical student Miguel MOYA Alvarez will serve as secretary general of the FEG. PADILLA López reiterated the usual phrases, describing the FEG as a revolutionary organization of the people working for the principles of nationalism, democracy, socialism, and anti-imperialism. He succeeds Félix FLORES Gómez who has been elected Federal Deputy from Guadalajara's Third District.

4. Crime Rate Normal: While Mexico City newspaper articles sought to paint a lurid picture of Guadalajara as a sort of "Fear City" where outlaws reign (a case of the pot calling the kettle black), the real situation was somewhat calmer. Although there certainly existed a troubled atmosphere during the October student elections at the University of

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Guadalajara resulting in several deaths, November brought a return to a relatively peaceful situation where there was more violent talk than action. However, the month did have its bad moments. Although the Jalisco State police were able to identify the members of the gang that killed three students and wounded nine others in a restaurant shootout in October (see refair, page 2, para. 4), only three of the eight gang members are in jail while the leaders are still fugitives. Several substantial bank robberies, the murder of a law student, and the discovery of an apartment full of terrorist literature and equipment in Guadalajara were the high points which is not all that bad for a city of this size. The crime situation is fairly well under control, and hopefully will get no worse.

5. Land Invasions: The state delegate of the Secretary of Agrarian Reform, Francisco Javier PUGA, is reported to have announced that there are 24 parcels of agricultural land invaded by landless campesinos in Jalisco at present for various reasons. The invasions are under study with the objective of granting land to the invaders and relocating them in some cases.

Meanwhile, in Colima, capital of Colima State, over 300 landless campesinos occupied the local offices of the Agrarian Reform from November 10-12, holding 35 employees as unwilling guests, or in effect, hostages, until the Secretary of Agrarian Reform in Mexico City invited the leaders to come to see him to resolve their problems. Governor of Colima NORIEGA continues to have land invasion as well as student problems.

Elsewhere in the district, relatively minor land invasion problems exist in all six states, with campesino demands for land usually supported by local student groups. All eyes are focussed on the major confrontations in northwest Mexico, especially in Sonora, to see how the case of the private small (and not so small) landowners fare faced with politically-supported invasions of good agricultural lands. Agricultural private investment and production will follow the example set in the fertile northwest.

Economic - Commercial

1. Peso Float and Wage/Price Demands: Three devaluations within three months have created an economic state of uncertainty, confusion, and mistrust by local businessmen due to the myriad of production, pricing, financing and other related problems that must be faced without sufficient information with which to solve them (see refair, page 4, para. 1). The wave of confidence-shaking rumors prior to the November 20 weekend instigated a run on the banks to withdraw all cash accounts and convert

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much of it into dollars. The prophesy of a new devaluation, exchange controls, and frozen bank accounts, became, in part, self-fulfilling. The substantial flight of private capital in mid-November triggered a third downward float on November 22 when the peso fell to 28.50 to the dollar. However, since that date, recovery has been swift and continuous, with the rate on December 2, the day after the inauguration of José López Portillo as President of Mexico and the end of the Echeverría era, at 20 pesos to buy one dollar, 22 to sell by the local banks. The improvement in the peso vis-a-vis the dollar must stem mainly from a substantial and continuing conversion of dollars into pesos by wealthy Mexicans, probably including some politicians, as well as increasing confidence related to the changes being made in the Federal Government. From the inaugural speech of President López Portillo it is still unclear whether the government will continue its policy of allowing the peso to float or will fix it once more at about 20 pesos to the dollar. ("What this country needs is a good five cent peso", remarked a local economist).

Both the labor and business sectors seem willing to wait until January before making new wage/price increase demands. The minimum wage annual revision in January will set the tone for wage settlements in early 1977 and although businessmen are hoping for a modest 10% minimum wage increase, unions are talking about 30%. The local commission on minimum wages recently suggested a 17% increase for Jalisco in January. A 17-20% settlement seems likely.

2. Inflation and Government Policies: Inflation continues as one of Mexico's biggest headaches. Despite government denials that gasoline and electricity rates would increase as a result of the September and October devaluations, gasoline prices rose 33 1/3% and electricity rates soared from a minimum of 10% for the poorest users to a whopping 106% for the biggest industries in Jalisco (including the U. S. investment in Celanese in Ocotlán, Jalisco) on November 15. Former subsidies to municipalities for public services, especially street lighting, were cancelled and Guadalajara's street lighting bill tripled from 750,000 pesos per month to 2,250,000 pesos per month, thus putting a further considerable strain on the already weak municipal government budget. Most small to medium business will pay 25-60% more for electricity. The higher gasoline prices will also redound almost immediately in higher costs of production and distribution. The two major local urban bus companies have received approval to increase fares 40% to 1.40 pesos and the taxi drivers are charging a 5 peso surcharge on metered rides awaiting the authorization of higher fares. Domestic air fares and long distance bus fares went up 20% at the end of the month and more price rises are inevitable once the higher electricity and gasoline

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costs are incorporated in the manufacturers' and distributors' costs.

According to a newspaper report, a Banco Nacional de México (large private bank) study shows that the money put into circulation in September 1976 was 42% more than that issued in September 1975, or an increase of seven billion pesos for that one month. From January through August 1976 the money supply increased 22% with respect to previous year figures, according to the same report. The conclusion is that the Mexican government just prints more and more money to satisfy its public spending programs and to finance private sector demands for money, which is what many observers suspected for some time. With such considerable monetary expansion accompanied by substantial price hikes in fuels and transportation and impending pressures for wage/price increases in January, it is difficult to imagine how the rate of inflation can be kept down to manageable proportions, even assuming an "austere" fiscal policy as promised.

3. Sonora Land Expropriation: The expropriation of 100,000 hectares of prime agricultural land in Sonora by land invading campesinos supported by President Echeverría (despite federal court rulings to the contrary that accorded ownership of the lands to private land holders) caused quite a lot of unhappy talk in and around Jalisco state, but the local chambers of commerce decided not to heed the call of Sonoran businessmen for a general strike. The local chambers followed the lead of their Mexico City counterparts and, while sympathetic to the plight of the Sonoran landowner, declined to support that cause with strike action, although businesses in seven other states (Sonora, Chihuahua, Durango, Nuevo León, Coahuila, Veracruz, and Puebla) did shut partially for a limited amount of time. Local ranchers and farmers are watching developments in Sonora, however, very carefully in order to determine the trends in private land ownership, and thus on private investment, in the rural sector. In the mean time, agricultural production, already hurt by the land invasions and poor weather conditions this year, will further suffer.

A technical expert to the Secretary of Agrarian Reform who gave a seminar at the University of Guadalajara during November on the subject of agricultural production stated that recent statistics indicate that 54% of the total value of Mexican agricultural production is grown on 3.3% of the arable land and that the total production of 50% of existing agricultural units is about 4.2% of the total value. This polarization of productivity has occurred at the same time as the government has redistributed more than 86 million hectares to 2.8 million campesinos and ejidatarios. The low productivity of the ejidal farm

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sector is caused by disorganization and extreme individualism, according to the expert from Agrarian Reform, and the solution lies in their collectivization, mechanization, industrialization, and diversification. It was announced about the same time that nearly 60,000 hectares will be collectivized near the Jalisco coast per agreements signed by President Echeverría per requests by 12 coastal communities. The basic dilemma remains - do the most productive farmers get more of the most productive land and grow more food to feed an exploding population or do the most productive as well as other lands become fractionalized and redistributed to inefficient small farmers who then must be collectivized to become moderately efficient? Revolutions have been fought, both within Mexico and without, over just such a question.

4. Tourism Failing: The School of Tourism at the University of Guadalajara held a seminar on the impact of the devaluation on the hotel industry and noted that the surplus from tourism of 1975 has become a deficit in 1976; that in 1970 tourism balanced 36% of the deficit on current account, in 1975 only 21%, and in 1976 barely 14%. Tourism is doing poorly, to put it mildly, and hotel owners and other tourist service operators better price their services realistically and accept less profit in order to compete more effectively on the world market, concluded the participants.

5. Investment and Jobs in Jalisco: The head of the Department of Statistics of the State of Jalisco released some interesting statistics on the growth of the state and its economic priorities. Of the five million inhabitants of Jalisco about one in four is working, or 1.3 million, the rest being dependents. In the first half of 1976 the state's economic real growth was recorded at 5.5%, and the state development plan calls for immediate attention to creating 18 regional development poles in the largest provincial cities and 102 municipal poles of development to deter the unprecedented, overwhelming migration from the farms to Guadalajara, which is barely coping with the public services required by its more than two million inhabitants today. Job creation in the interior of the state is an absolute necessity. In the past six years 300,000 jobs were created by investors in Jalisco, but this has hardly kept up with the demographic explosion. Of the 23.7 billion pesos of investment in Jalisco in the last six years 14.4 billion (or 61%) was made by public sector agencies and only 9.3 billion by private industry. Work for the largely uneducated rural migrants and city dwellers is Jalisco's top priority.


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