

FILE MEXICO

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Intelligence Information Cable

ROUTINE
IN-078370
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1.3(a)(4)

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CITE

DIST 26 OCTOBER 1976

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COUNTRY: MEXICO

DOI: MID-OCTOBER 1976

SUBJECT: VIEWS OF

THAT MEXICO'S

ECONOMIC SITUATION WILL CONTINUE TO DETERIORATE

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ACQ:

SOURCE:



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SUMMARY:

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

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

Approved for Release

Date

JUL 1995

NLFMR Doc No. 95-3

Document No. # 11

1 NOV 1976 10 00 AM '76

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

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1. [REDACTED]

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

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[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED] ON THE TOPIC.) THIS AMOUNT WAS HIGHER DURING THE MID-SEPTEMBER BANK RUN WHICH WAS CAUSED BY RUMORS THAT THE GOVERNMENT INTENDED TO FREEZE BANK ACCOUNTS, BUT THE DAILY AVERAGE OF US\$20 MILLION CAPITAL OUTFLOW STILL HOLDS TRUE. PEOPLE ARE CONTINUING TO TAKE THEIR MONEY OUT OF BANKS AND ARE EITHER KEEPING IT AT HOME OR PUTTING IT INTO U.S.

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BANKS. [REDACTED] SINCE THE FIRST OF THE YEAR, THE NET OUTFLOW OF U.S. DOLLARS HAS BEEN OVER THE US\$1.2 BILLION LOAN MEXICO WILL RECEIVE FROM THE INTERNATIONAL MONETARY FUND (IMF). [REDACTED] COMMENT: THE US\$1.2 BILLION IMF LOAN WAS REQUESTED BY PRESIDENT LUIS E C H E V E R R I A ALVAREZ TO SUPPORT THE FLOTATION OF THE PESO, [REDACTED]

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[REDACTED]

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

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[REDACTED]

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

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

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

4. COMMENTING ON THE REMARKS [REDACTED] THAT MEXICO WOULD HAVE TO LIVE THROUGH TWO YEARS OF AUSTERITY, [REDACTED] MEXICO COULD NOT MANAGE SUCH A PROGRAM AS IT IS ALREADY FACING A SEVERE RECESSION IN 1977.

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

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

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5. [REDACTED] THE PRESENT

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

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6. [REDACTED] ONE OF ECHEVERRIA'S

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



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

7. [REDACTED]

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[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]



[REDACTED]

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