

GRS820

[CULT]

CONFIDENTIAL

CONFIDENTIAL

DESKBY 052100Z

FM MEXICO CITY 051920Z SEP 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 726 OF 5 SEPTEMBER

INFO IMMEDIATE WASHINGTON, TREASURY, DOT, ECGD, BANK OF ENGLAND,
TORONTO (FOR DELEGATION TO IMF MEETING)

MS

MIPT: NEW MEXICAN ECONOMIC MEASURES

1. THE GOVERNMENT HAS ORGANISED A SERIES OF MASS MEETINGS DESIGNED TO SHOW POPULAR SUPPORT FOR THE MEASURES. LARGE NUMBERS OF PEASANTS AND WORKERS WERE BUSSED INTO MEXICO CITY FROM SURROUNDING AREAS ON 4 SEPTEMBER FOR A RALLY AT WHICH LOPEZ PORTILLO AND OTHER ORATORS DECLARED THAT THE MEASURES WERE A HISTORIC STEP FORWARD IN MEXICO'S REVOLUTION.

2. FOR INTERNAL PURPOSES THE GOVERNMENT IS EMPHASISING THE RADICAL POLITICAL NATURE OF THE NEW ECONOMIC POLICY. AS CARLOS TELLO SAID: QUOTE THE STATE HAS IN THIS WAY REMOVED THE PRINCIPAL OBSTACLE TO THE ESTABLISHMENT OF A NATIONALIST ECONOMIC POLICY. IN THE MEDIUM TERM THE EXCHANGE CONTROL WILL ALLOW US TO FREE OUR INTERNAL FINANCIAL POLICY FROM THE TYRANNY OF THE INTERNATIONAL MONEY AND CAPITAL MARKET. THIS WILL ALLOW US TO TACKLE RADICALLY THE OTHER SECULAR PROBLEMS OF THE MEXICAN ECONOMY. UNQUOTE. AT THE SAME TIME AN EFFORT IS BEING MADE TO CONVINCE DOMESTIC AS WELL AS INTERNATIONAL OPINION THAT THE MEASURES DO NOT REPRESENT A MOVE TOWARDS SOCIALISM. SELECTED FOREIGN JOURNALISTS ARE BEING BRIEFED THAT THE MEASURES WERE FORCED ON THE GOVERNMENT BY EVIDENCE THAT THE PRIVATE BANKS HAD ENCOURAGED AND STIMULATED A MASSIVE FLIGHT OF CAPITAL.

3. REPRESENTATIVES OF THE PRIVATE SECTOR HAVE CONDEMNED THE MEASURES AS UNJUST AND UNNECESSARY, HAVE BLAMED ECONOMIC MISMANAGEMENT BY THE GOVERNMENT FOR THE COUNTRY'S FINANCIAL PREDICAMENT AND SAID THAT MEASURES OF SUCH TRANSCENDENTAL IMPORTANCE SHOULD BE SUBJECT TO A PLEBISCITE AND NOT THE FIAT OF ONE MAN. BUT THE DECISION TO SELL OFF THE PRIVATE BANKS' NON-BANKING ASSETS TO THE PRIVATE SECTOR WILL BE WELCOMED TO THE PRIVATE SECTOR. SO SHOULD THE APPOINTMENT OF RESPECTED AND EXPERIENCED PUBLIC FIGURES TO HEAD THE LARGEST BANKS (INCLUDING DAVID IBARRA, FORMER FINANCE MINISTER AND JOSE JUAN OLLOQUI, CURRENT MEXICAN AMBASSADOR IN LONDON). THE PRIVATE SECTOR WILL BE RELIEVED AT BEING ALLOWED TO REPAY ITS FOREIGN DEBTS AND PAY FOR ITS IMPORTS AT THE PREFERENTIAL EXCHANGE RATE.

4. EVEN SO THE NEW MEASURES REPRESENT A SUBSTANTIAL EXTENSION OF STATE CONTROL OVER THE ECONOMY. THE REDUCED PRIVATE SECTOR WILL REQUIRE APPROVAL FROM GOVERNMENT OFFICIALS FOR MANY DECISIONS PREVIOUSLY IN PRIVATE HANDS. THE SCOPE FOR CORRUPTION AND ENRICHMENT BY GOVERNMENT OFFICIALS, ALREADY A FEATURE OF THE LOPEZ PORTILLO ADMINISTRATION, WILL BE GREATLY EXPANDED.

5. AT FIRST SIGHT THE NEW MEASURES SEEM TO CREATE AS MANY PROBLEMS AS THEY SOLVE. THE SUBSIDY REQUIRED TO SERVICE MEXICO'S DEBT AND ALL ITS IMPORTS AT 50 PESOS TO THE DOLLAR, WHILE EXPORTS ARE PAID AT 70, WILL BE ENORMOUS. THE GOVERNMENT'S ABILITY TO FINANCE IT

CONFIDENTIAL

/ WIKK

CONFIDENTIAL

WILL BE DECREASED DRASTICALLY BY THE DECISION TO REDUCE INTEREST PAYMENTS TO DEPOSITORS FROM 44 TO 34 PER CENT OVER THE NEXT FIVE WEEKS. WITH INFLATION RISING AT OVER 70 PER CENT THIS YEAR, THIS IS BOUND TO LEAD TO A SERIOUS RUNDOWN IN DEPOSITS. THE DECISION TO FIX BOTH THE EXCHANGE RATES SHOWS DISREGARD FOR THE EFFECTS OF INFLATION ON MEXICO'S CAPACITY TO INCREASE ITS MANUFACTURED EXPORTS AND ATTRACT MORE TOURISTS.

6. MOREOVER THE GOVERNMENT SEEMS AT LEAST TEMPORARILY TO HAVE LOST SIGHT OF THE AUSTERITY PROGRAMME INTRODUCED EARLIER IN THE YEAR AND THE MORE RECENT APPLICATION TO THE IMF. TELLO MADE NO REFERENCE TO THE IMF IN HIS DECLARATION. HE IS AT PRESENT BEHAVING LESS LIKE THE GOVERNOR OF THE BANK THAN THE MINISTER OF FINANCE, WHO IS SAFELY OUT OF THE COUNTRY AT THE IMF MEETING. TELLO IS KNOWN TO FAVOUR A CENTRALLY PLANNED ECONOMY AND TO BE OPPOSED TO POLICIES ASSOCIATED WITH THE IMF. THERE MUST NOW BE CONSIDERABLE DOUBT ABOUT THE OUTCOME OF THE IMF NEGOTIATIONS. IT IS HARD TO TELL IF PRESIDENT LOPEZ PORTILLO IS FULLY AWARE OF THE IMPLICATIONS OF WHAT IS GOING ON. BUT PRESIDENT-ELECT DE LA MADRID WILL BE IN NO DOUBT.

7. MANY IN THE PRIVATE SECTOR ARE CLINGING TO THE HOPE THAT THE MEASURES MAY NOT BE IRREVERSIBLE AND THAT THE DE LA MADRID ADMINISTRATION MAY CHANGE COURSE AGAIN WHEN IT ASSUMES OFFICE ON 1 DECEMBER. TELLO AND HIS ECONOMIC VIEWS ARE STRONGLY OPPOSED BY DE LA MADRID'S CLOSEST ADVISERS. BUT REVERSING THE PRESENT POLICIES WILL BE DIFFICULT: THE GOVERNMENT IS TRYING TO ESTABLISH THEM AS PART OF THE MYTHOLOGY OF MEXICAN NATIONALISM, TOGETHER WITH THE EXPROPRIATION OF THE FOREIGN OIL COMPANIES IN 1938. IN DOING SO IT HAS THE SUPPORT OF THE TRADES UNION MOVEMENT AND THE LEFT.

8. AS SEEN FROM HERE, I SHOULD HAVE THOUGHT THAT THE GENERAL WESTERN INTEREST WAS TO AVOID, OR AT LEAST POSTPONE AS LONG AS POSSIBLE, A CONFRONTATION WITH THE PRESENT MEXICAN GOVERNMENT. OTHERWISE THERE WOULD BE A REAL RISK OF A DEFAULT, WHICH SOME HERE MAY ANYWAY WANT FOR INTERNAL POLITICAL REASONS. DE LA MADRID MAY FIND HIMSELF SERIOUSLY CONSTRAINED WHEN HE TAKES OFFICE IN 3 MONTHS TIME, BUT WE CAN BE FULLY CERTAIN OF A NEW APPROACH, IF NOT OF NEW POLICIES, AS WELL AS NEW MEN TO GIVE THEM EFFECT.

9. FCO PLEASE ADVANCE TO ATKINSON (TREASURY), OWEN (DOT), HALL (ECGD) AND GILCHRIST, BANK OF ENGLAND.

TICKELL

ADVANCED AS REQUESTED

FINANCIAL DISTN:
MCAD
NAD
SAM
WIA

COPIES TO:
ADVANCE ADDRESSEES.

2
CONFIDENTIAL

GRS 320

UNCLASSIFIED

DESKBY 052100Z

FM MEXICO CITY 051900Z SEP 82

TO IMMEDIATE FOO

TELEGRAM NUMBER 725 OF 5 SEPTEMBER

INFO IMMEDIATE WASHINGTON, TREASURY, DOT, ECGD, BANK OF ENGLAND,
TORONTO (FOR DELEGATION TO IMF MEETING)

MY TELNO 711: NEW MEXICAN ECONOMIC MEASURES

1. THE NEW GOVERNOR OF THE BANK OF MEXICO, CARLOS TELLO, ANNOUNCED YESTERDAY THAT FROM 6 SEPTEMBER THERE WOULD BE TWO FIXED PARITIES OF THE PESO: A PREFERENTIAL RATE OF 50 PESOS TO THE DOLLAR AND AN ORDINARY RATE OF 70 PESOS TO THE DOLLAR. PREFERENTIAL RATE DOLLARS WOULD BE USED FOR PURPOSES CONSIDERED ESSENTIAL IN THE NATIONAL INTEREST, INCLUDING THE SERVICING OF ALL FOREIGN DEBT, BOTH PRIVATE AND PUBLIC, AND ALL AUTHORIZED IMPORTS. EXPORTS WOULD BE PAID AT THE ORDINARY RATE OF 70 TO THE DOLLAR. THE BUYING AND SELLING OF FOREIGN CURRENCY OTHER THAN THROUGH THE NATIONAL BANKING SYSTEM WOULD BE ILLEGAL. MEXICANS WOULD BE ALLOWED TO ACQUIRE UP TO 250 DOLLARS AT THE ORDINARY RATE FOR TRAVEL ABROAD.

2. TELLO ALSO ANNOUNCED SUBSTANTIAL REDUCTION IN VARIOUS INTEREST RATES, AND IN THE COST OF MORTGAGES AND LOANS CONSIDERED TO BE OF SOCIAL IMPORTANCE. HE SAID THAT MANUFACTURING AND COMMERCIAL COMPANIES PREVIOUSLY OWNED BY THE PRIVATE BANKS AND NOW THEREFORE BY THE STATE WOULD IN DUE COURSE BE OFFERED FOR SALE. MONEY IN BANK ACCOUNTS WOULD REMAIN THE PROPERTY OF THE ACCOUNT-HOLDER AND WOULD NOT BELONG TO THE GOVERNMENT.

3. TELLO SAID THAT THE PRIVATE BANKS HAD OPERATED IN A WAY WHICH MAXIMISED THEIR OWN PROFITS AND IGNORED THE SOCIAL AND ECONOMIC INTERESTS OF THE MEXICAN PEOPLE. THE NATIONALISATION OF THE BANKS AND THE IMPOSITION OF FULL EXCHANGE CONTROLS WOULD ENABLE MEXICO TO ESCAPE FROM THE TYRANNY OF FOREIGN SPECULATION.

4. PLEASE SEE MIFT.

5. FOO PLEASE PASS TORONTO (FOR IMF DELEGATION DESKBY 052100Z, AND ADVANCE TO ATKINSON (TREASURY), OWEN (DOT), HALL (ECGD) AND GILCHRIST, BANK OF ENGLAND.

TICKELL

[ADVANCED AS REQUESTED]

FINANCIAL
MCAD
NAD
S AM D
WIAD

COPIES TO
MR ATKINSON TREASURY
MR OWEN DOT
MR HALL ECGD
MR GILCHRIST BANK OF ENGLAND