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FM MEXICO CITY 001945Z DEC 82

TO PRIORITY FCO

TELEGRAM NUMBER 1021 OF 3 DECEMBER 82

INFO PRIORITY TREASURY, DOT, ECGD, BANK OF ENGLAND, UKDEL IMF/
WORLD BANK, WASHINGTON

NY TELNO 1007: NEW MEXICAN GOVERNMENT MEASURES.

SUMMARY

1. THE NEW MEXICAN ADMINISTRATION HAS MOVED QUICKLY IN ITS EFFORTS TO RESTORE CONFIDENCE IN THE MANAGEMENT OF THE ECONOMY, IN PARTICULAR THROUGH PUBLIC SECTOR PRICE RISES, A MORE POSITIVE ATTITUDE TO FOREIGN INVESTMENT, AND NEW MEASURES TO COMBAT CORRUPTION.

THE STATE OF THE ECONOMY.

2. IN A SPEECH YESTERDAY THE MINISTER OF PLANNING GAVE A GRIM PICTURE OF THE STATE OF THE ECONOMY. HE SAID THAT INFLATION WAS NOW RUNNING AT 100%. THE UNEMPLOYED, EXCLUDING UNDER-EMPLOYED, WERE 2 MILLION. IN DECEMBER BOTH INFLATION AND UNEMPLOYMENT WOULD REACH THE HIGHEST LEVELS IN THE HISTORY OF MEXICO. DUE TO FINANCIAL POPULARISM, THE NATIONALISED BANKS HAD LOST IN THE PAST THREE MONTHS MORE THAN THE TOTAL OF THEIR EQUITY. THE VALUE OF NEW SAVINGS BEING ATTRACTED WAS VERY LOW AND OF DOLLARS NIL. MOST PUBLIC SECTOR CORPORATIONS WERE OPERATING AT A LOSS. MORE THAN ONE WAS ON THE EDGE OF COLLAPSE. URGENT AND RADICAL MEASURES WOULD BE TAKEN.

PRICES.

3. THE MINISTER OF TRADE ANNOUNCED YESTERDAY THE DOUBLING OF THE PRICE OF PETROL AND STEEP INCREASES FOR OTHER ITEMS INCLUDING GAS AND PETROCHEMICALS. HE SAID THE PREVIOUS POLICY OF MAINTAINING PRICE CONTROLS ON MORE THAN 3,000 ITEMS WAS IMPRACTICAL AND UNWORKABLE: IN FUTURE THE GOVERNMENT WOULD CONTROL THE PRICE OF ONLY SOME 300 KEY ITEMS.

FOREIGN INVESTMENT

4. THE MINISTER OF TRADE ALSO ANNOUNCED A CHANGE OF POLICY TOWARDS FOREIGN INVESTMENT. MEXICO WOULD MOVE FROM A PASSIVE POLICY OF ACCEPTING OR REJECTING PROPOSALS FOR FOREIGN INVESTMENT, TO ONE OF ACTIVELY PROMOTING FOREIGN INVESTMENT ON A SELECTIVE BASIS, ESPECIALLY WHERE IT WOULD BRING NEW TECHNOLOGY OR IMPROVE THE COUNTRY'S EXPORT POTENTIAL. IT WAS TIME TO END SIMPLISTIC DEFENSIVE ATTITUDES TOWARDS FOREIGN COMPANIES AND TO ADOPT A PRAGMATIC POLICY OF SEEKING MUTUAL BENEFITS.

CORRUPTION.

5. THE PRESIDENT'S SPECIAL ADVISER HAS GIVEN DETAILS OF LEGISLATION WHICH IS BEING PREPARED TO COMBAT CORRUPTION. HE SAID THAT GOVERNMENT OFFICIALS WOULD LOSE THE PRIVILEGES AND IMMUNITIES WHICH

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THEY HAD HITHERTO ENJOYED AND WHICH HAD MADE IT DIFFICULT IN MANY CASES TO PURSUE INVESTIGATIONS INTO CORRUPT PRACTICES.

FOREIGN REACTIONS

6. THE MEXICAN PRESS AND TELEVISION HAVE QUOTED EXTENSIVELY COMMENTS ON THE PRESIDENT'S INAUGURAL ADDRESS BY THE SPECIAL FOREIGN GUESTS INVITED FOR THE OCCASION, INCLUDING A NUMBER OF PROMINENT AMERICAN BANKERS AND INDUSTRIALISTS. THE COMMENTS WERE ALMOST ENTIRELY FAVOURABLE: MANY SAID THAT IT WAS TOO EARLY TO ASSESS THE EFFECTIVENESS OF THE GOVERNMENT'S PROGRAMME, BUT THAT THE POLICIES WERE PRECISELY THE ONE'S REQUIRED TO RESTORE INTERNATIONAL CONFIDENCE. PROMINENCE HAS ALSO BEEN GIVEN TO THE INITIAL REACTIONS OF FOREIGN GOVERNMENTS, INCLUDING SPOKESMEN OF THE WHITE HOUSE AND OF THE STATE DEPARTMENT.

ATTITUDE OF THE IMF

7. THE DEPUTY MANAGING DIRECTOR OF THE IMF, WHO ATTENDED THE INAUGURATION AS A SPECIAL GUEST, HAS NOT COMMENTED PUBLICLY ON THE PRESIDENT'S ECONOMIC PROGRAMME, BUT HE TOLD ENRIQUES SAVIGNAC (THE FORMER DEPUTY MINISTER OF FINANCE) AND ME AT A RECEPTION YESTERDAY THAT HE WAS IMPRESSED AND ENCOURAGED BY THE PRESIDENT'S SPEECH AND BY THE POLICIES BEING INTRODUCED BY HIS GOVERNMENT.

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