

Economy

Overview: Mexico, under the guidance of new President Ernesto ZEDILLO, entered 1995 in the midst of a severe financial crisis. Mexico's membership in the North American Free Trade Agreement (NAFTA) with the United States and Canada, its solid record of economic reforms, and its strong growth in the second and third quarters of 1994 - at an annual rate of 3.8% and 4.5% respectively - seemed to augur bright prospects for 1995. However, an overvalued exchange rate and widening current account deficits created an imbalance that ultimately proved unsustainable. To finance the trade gap, Mexico City had become increasingly reliant on volatile portfolio investment. A series of political shocks in 1994 - an uprising in the southern state of Chiapas, the assassination of a presidential candidate, several high profile kidnappings, the killing of a second high-level political figure, and renewed threats from the Chiapas rebels - combined with rising international interest rates and concerns of a devaluation to undermine investor confidence and prompt massive outflows of capital. The dwindling of foreign exchange reserves, which the central bank had been using to defend the currency, forced the new administration to change the exchange rate policy and allow the currency to float freely in the last days of 1994. The adjustment roiled Mexican financial markets, leading to a 30% to 40% weakening of the peso relative to the dollar. ZEDILLO announced an emergency economic program that included federal budget cuts and plans for more privatizations, but it failed to restore investor confidence quickly. While the devaluation is likely to help Mexican exporters, whose products are now cheaper, it also raises the specter of an inflationary spiral if domestic producers increase their prices and workers demand wage hikes. Although strong economic fundamentals bode well for Mexico's longer-term outlook, prospects for solid growth and low inflation have deteriorated considerably, at least through 1995.

National product: GDP - purchasing power parity - \$728.7 billion (1994 est.)

National product real growth rate: 3.5% (1994 est.)

National product per capita: \$7,900 (1994 est.)

Inflation rate (consumer prices): 7.1% (1994 est.)

Unemployment rate: 9.8% (1994 est.)

Budget:

revenues: \$96.99 billion (1994 est.)

expenditures: \$96.51 billion (1994 est.), including capital expenditures of \$NA (1994 est.)

Exports: \$60.8 billion (f.o.b., 1994 est.), includes in-bond industries

commodities: crude oil, oil products, coffee, silver, engines, motor vehicles, cotton, consumer electronics

partners: US 82%, Japan 1.4%, EC 5% (1993 est.)

Imports: \$79.4 billion (f.o.b., 1994 est.), includes in-bond industries

commodities: metal-working machines, steel mill products, agricultural machinery, electrical equipment, car parts for assembly, repair parts for motor vehicles, aircraft, and aircraft parts
partners: US 74%, Japan 4.7%, EC 11% (1993 est.)

External debt: \$128 billion (1994 est.)

Industrial production: growth rate 4.5% (1994 est.)

Electricity:

capacity: 28,780,000 kW

production: 122 billion kWh

consumption per capita: 1,239 kWh (1993)

Industries: food and beverages, tobacco, chemicals, iron and steel, petroleum, mining, textiles, clothing, motor vehicles, consumer durables, tourism

Agriculture: accounts for 7% of GDP; large number of small farms at subsistence level; major food crops - corn, wheat, rice, beans; cash crops - cotton, coffee, fruit, tomatoes

Illicit drugs: illicit cultivation of opium poppy and cannabis continues in spite of government eradication program; major supplier of heroin and marijuana to the US market; continues as the primary transshipment country for US-bound cocaine and marijuana from South America; increasingly involved in the production and distribution of methamphetamine

Economic aid:

recipient: US commitments, including Ex-Im (FY70-89), \$3.1 billion;

Western (non-US) countries, ODA and OOF bilateral commitments (1970-89), \$7.7 billion; Communist countries (1970-89), \$110 million

Currency: 1 New Mexican peso (Mex\$) = 100 centavos

Exchange rates: market rate of Mexican pesos (Mex\$) per US\$1 - 6.736 (average in March 1995), 5.5133 (January 1995), 3.3751 (1994), 3.1156 (1993), 3,094.9 (1992), 3,018.4 (1991), 2,812.6 (1990)

note: the new peso replaced the old peso on 1 January 1993; 1 new peso = 1,000 old pesos

Fiscal year: calendar year