



June 1986

Mexico: Political and Economic Overview

President de la Madrid is now in the fourth year of his 6-year term. Overall, he is a good deal weaker politically than previous Mexican leaders, and he has made little headway in coping with the country's serious economic problems.

- Real wages declined for a fourth consecutive year in 1985 and almost certainly will fall once again this year.
- The purchasing power of the average worker has declined 40 percent since late 1982, when de la Madrid assumed office.
- Key cabinet ministers already are jockeying to succeed the President, business confidence in the administration is low, and the military is seeking gradually to expand its political role.

The sharp decline in international oil prices in the past six months has deepened Mexico's financial problems at a time when political pressures for debt relief have been growing.

- In recent weeks, hardliners on the debt issue, led by Budget Minister Salinas, appear to have gained the upper hand in the President's inner circle at the expense of Treasury Minister Silva Herzog and other moderates.

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Mexico City may calculate that a bold move on the debt front is needed because talks with the IMF and creditor banks are stalled.

put pressure on IMF, banks + U.S



If the talks fail, the President almost certainly will threaten unilateral action, in our judgment.

Mexico concerned about its hard currency reserves

- The most contentious issue remains the size of Mexico's public sector debt. The Fund is also pressing the Mexicans to sell more government-owned firms and liberalize trade and foreign investment. De la Madrid appears willing to take modest steps to reform the economy, as seen by the recent closure of a publicly-owned steel mill and his decision to join GATT. In our view, however, he lacks the political mettle to adopt the bold reforms that would be needed to turn the economy around.

does not have a long term game plan

[Redacted]

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At the same time, de la Madrid is ^{knows} ~~probably aware~~ that postponing reforms and taking a tougher stance on the debt issue are politically popular.

--Such policies could help the PRI in this year's elections. Thirteen governorships and numerous municipal offices will be at stake later this year.

--The PRI will cede no governorships and little else to the opposition, in our judgment [Redacted]

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25X6

--The toughest races will occur, beginning in July, in the northern states of Chihuahua, Durango, and Sinaloa. We believe there is a strong potential for violence in Chihuahua, where the conservative National Action Party (PAN) has considerable support.

Regardless of domestic economic and political conditions, Mexico will continue to pursue an independent foreign policy, in our view.

--We expect little softening in Mexico's firm diplomatic support for Nicaragua's Sandinistas.

--We know that Mexico City plans to receive a visit from Soviet Foreign Minister Shevardnadze later this year and from General Secretary Gorbachev, in 1987.

At the same time, Mexico's leaders almost certainly would like to maintain good relations with the United States, to which they will look for economic assistance.

[Redacted]

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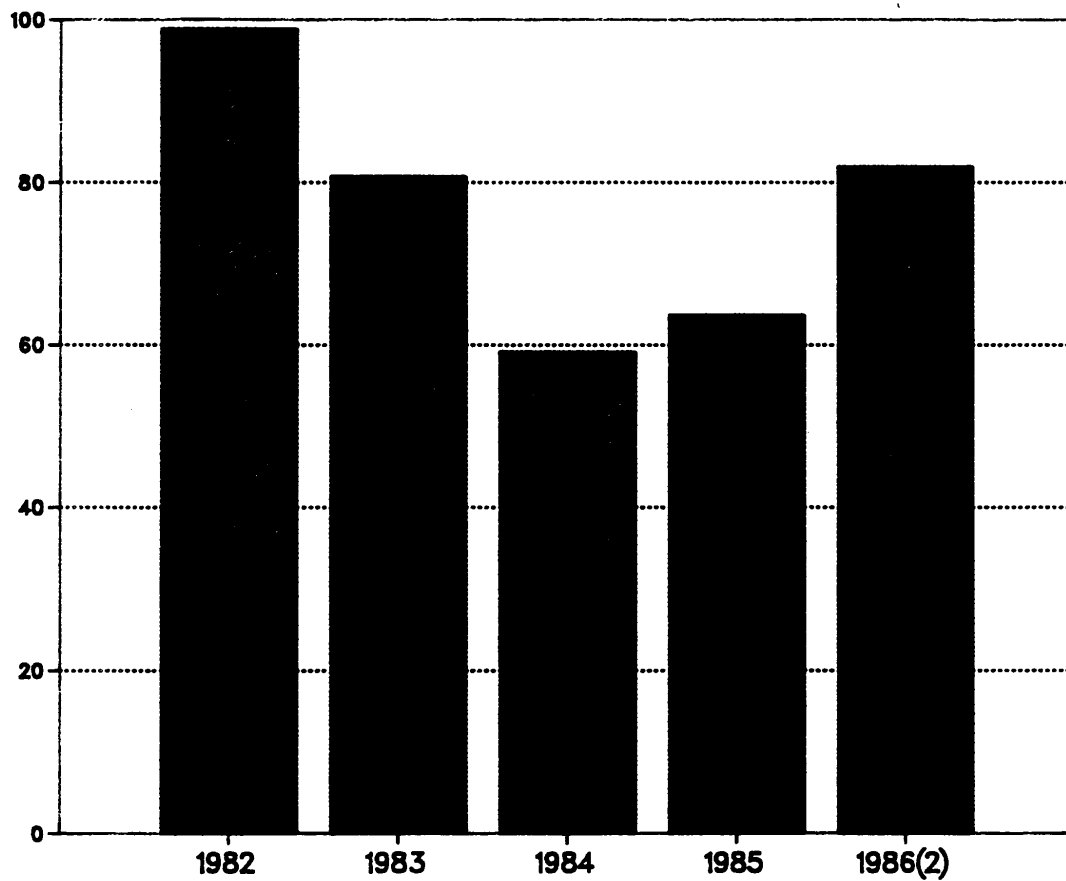
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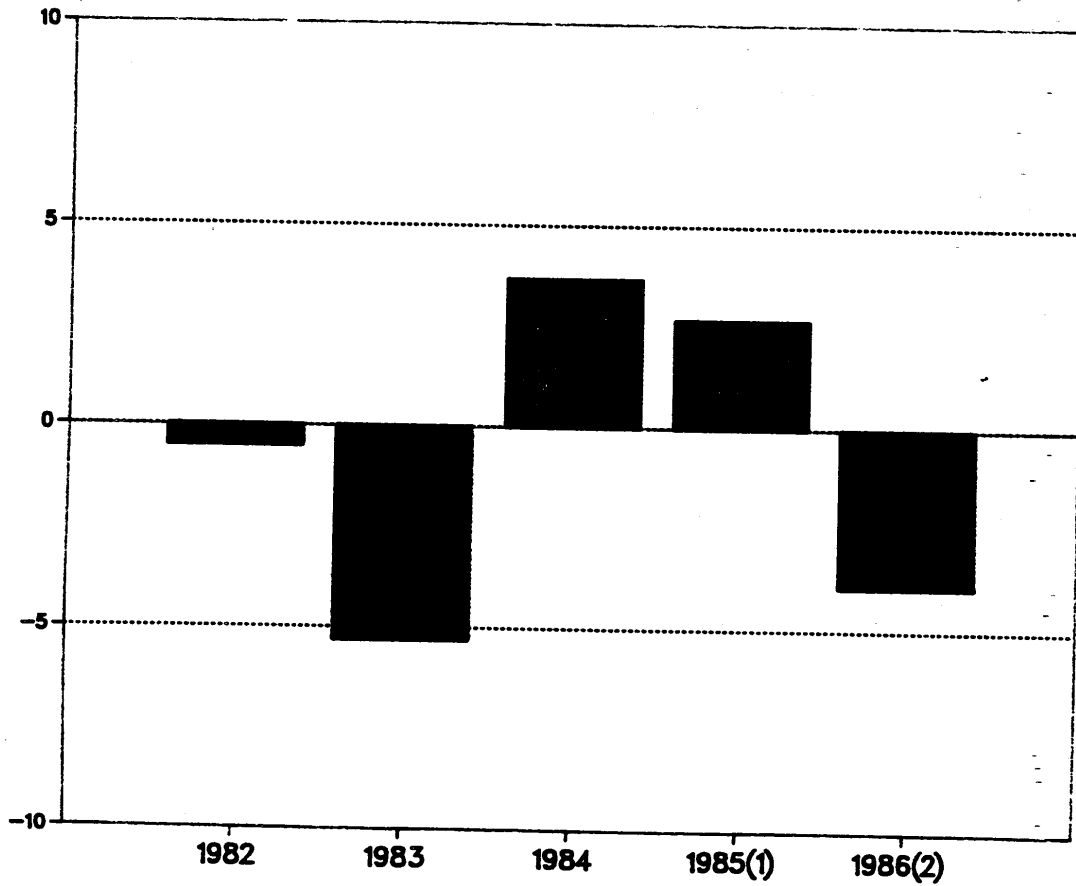
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Consumer Price Index (1970=100)

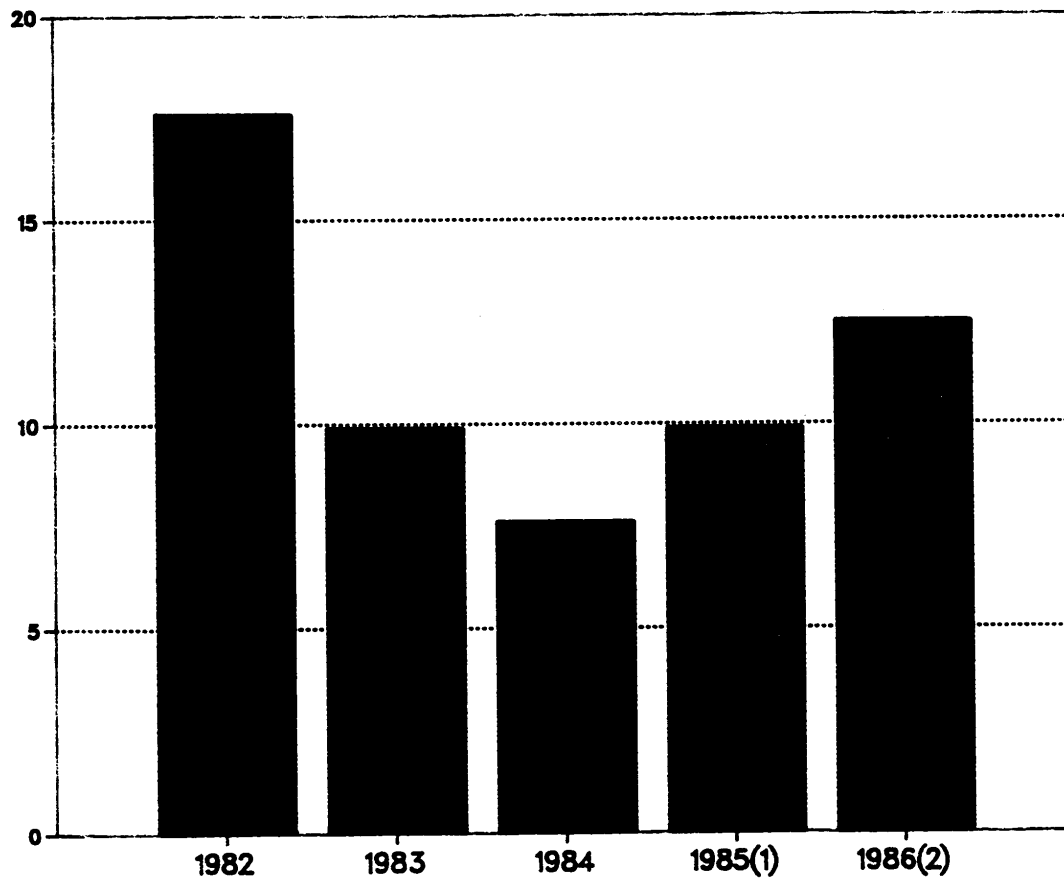


(2) Mexican Government Projection

Real GDP (Percentage Change)

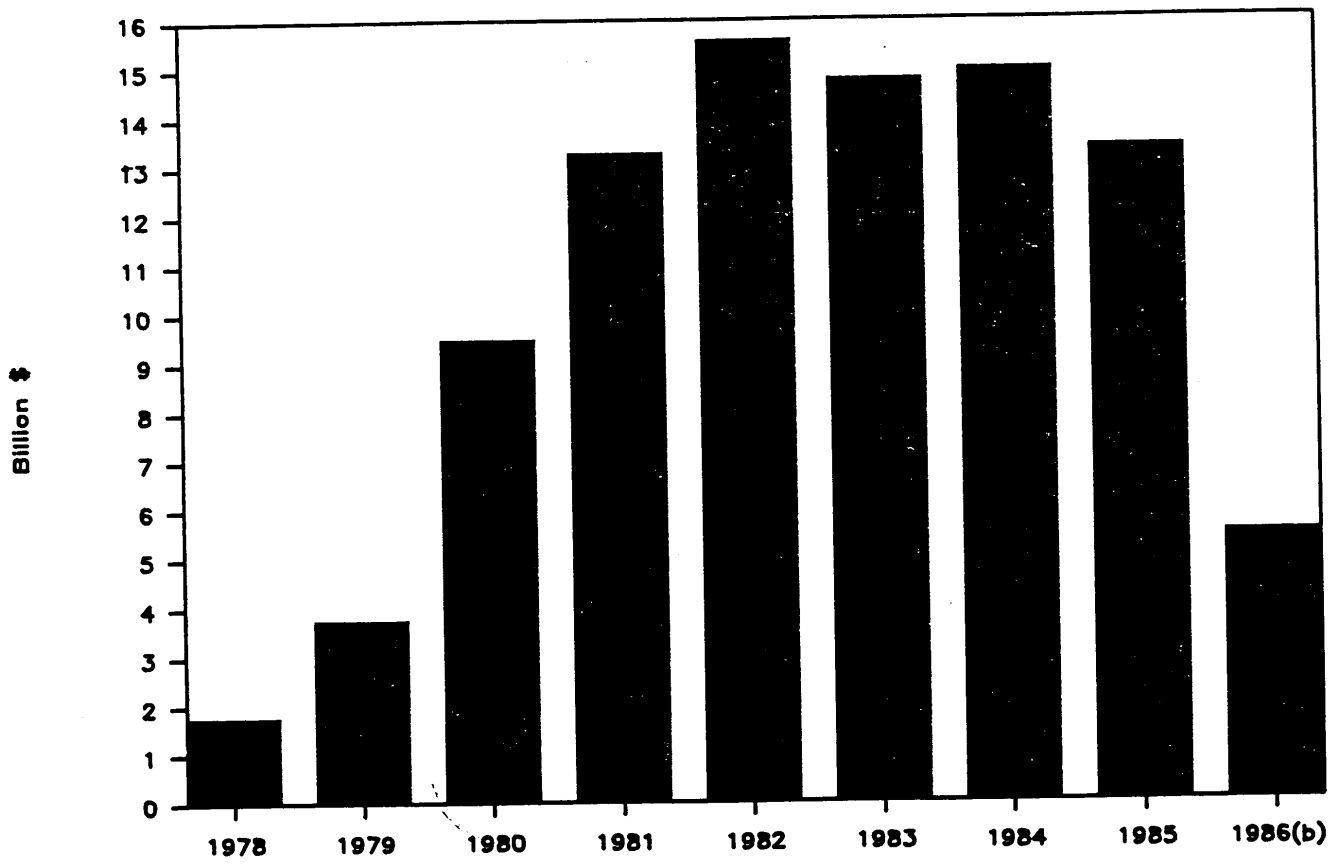


Public Sector Deficit as a Share of GDP



(1) Revised by Bank of Mexico (2) Mexican Government Projection

Oil Export Revenues

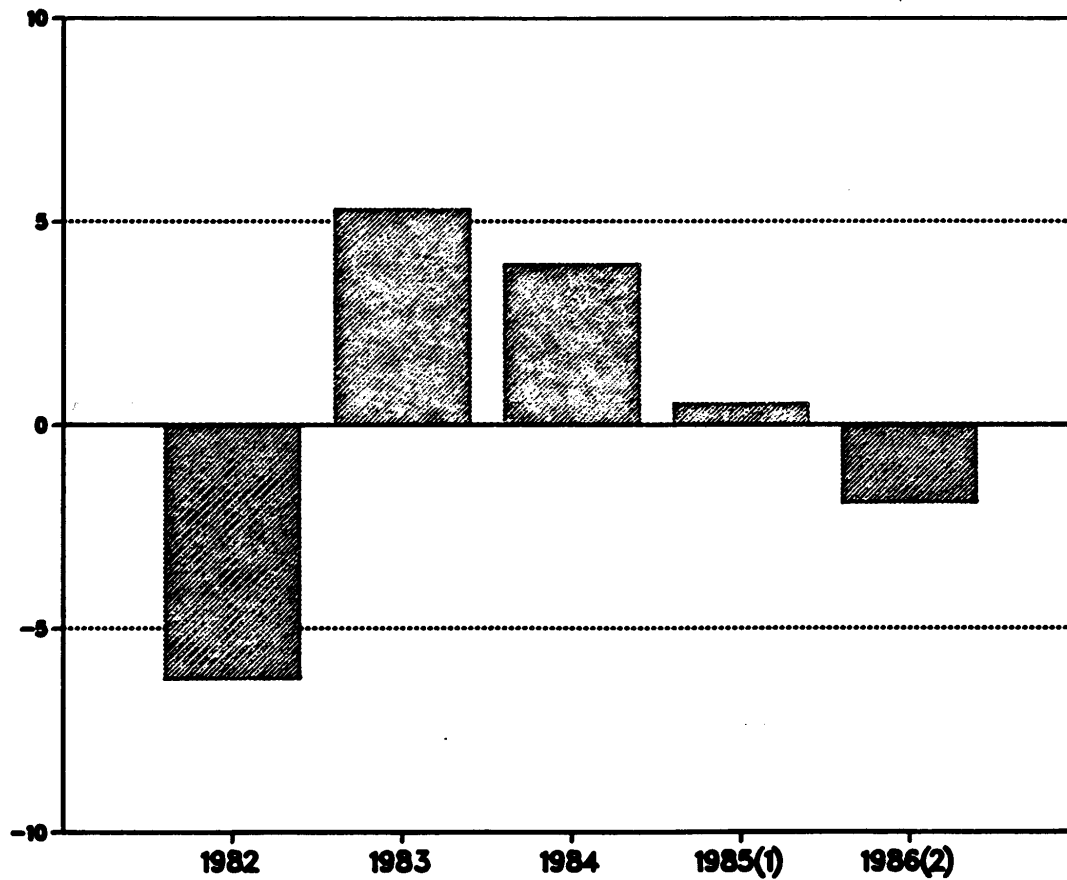


(b) Oil Prices=\$12/bbl; Exports=1.25mbd



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Current Account Balance (Billions of Dollars)



(1) Revised by Bank of Mexico (2) Mexican Government Projection

Oil Export Prices

