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Report Suggests Nuevo Peso Devaluation Strong Possibility In Next Two Years

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According to the London-based Financial Times, a growing number of Mexican bankers, businessmen and government officials are worried that the administration of President Carlos Salinas de Gortari may be forced to devalue the nuevo peso within the next two years because of a high current account deficit. Estimates for the current account deficit have been growing. In early January, the Instituto Tecnologico Autonomo de Mexico (ITAM) had forecast the deficit at US$24.4 billion for 1993, compared to US$21.5 billion in 1992. Now, however, some economists believe the deficit this year could reach US$27 billion. The deficit's growth is mainly attributed to the widening gap between imports and exports. Mexican imports increased by an average of 24% annually between 1989 and 1992. In contrast, exports only rose about 7% annually in the same time period. According to the National Association of Mexican Exporters and Importers (Asociacion Nacional de Importadores y Exportadores de Mexico, ANIERM) this disparity worsened in 1992, when imports rose by 21.7%, compared to only a 1.1% increase in exports. The Financial Times noted that the growth in the current account deficit and a slowdown in economic growth are directly linked. Because of the deficit, the government has been forced to maintain high interest rates to attract capital. But high interest rates have slowed economic growth (from 3.6% in 1991 to 2.7% in 1992). Despite sluggish growth, however, the government's high interest/low inflation policies are less of a political risk for the Salinas administration, since only a small percentage of the population has access to credit or mortgages. Analyst Jonathan Heath of Mexico City-based think-tank Macroeconomia Asesoria suggests one logical way to address the problem is to devalue the nuevo peso, enhancing the competitiveness of Mexican exports. Political considerations, however, may discourage devaluation. On the one hand, key cabinet members led by Finance Minister Pedro Aspe oppose devaluing the nuevo peso. On the other hand, devaluation would violate terms of the latest Economic Stability and Growth Pact (PECE), which the government has taken great pains to defend. Some economists suggest that if the government does indeed devalue the nuevo peso, the measure will have to be implemented soon. A devaluation in 1993 would come during a period of relative political calm, but a devaluation in 1994 could endanger the ruling Institutional Revolutionary Party (PRI)’s position during the 1994 presidential elections. Still, according to the Financial Times, the ultimate fate of devaluation may rest on the progress of the North American Free Trade Agreement (NAFTA). If the US, Canadian and Mexican legislatures move quickly to ratify the treaty, foreign investment in Mexico is almost certain to pick up. However, if implementation of NAFTA is delayed much beyond its starting date of Jan. 1, 1994, analysts see a devaluation as almost inevitable. (Sources: El Financiero International, 02/15/93, 03/01/93; Agence France-Presse, Financial Times, 02/23/93)