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John Neagle

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Mexico: Austerity Pact Extended For Eight Months

by John Neagle

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On June 18, the Mexican government extended until March 1990 an austerity program, called the "Pact for Stability and Economic Growth." The pact an agreement between the government on the one hand, and business, workers and peasants on the other includes wage and price controls and maintenance of a stable exchange rate. The pact was due to expire July 31, and was expected to be renewed shortly before that date. In an unexpected move, President Carlos Salinas de Gortari called leaders of the three sectors to the National Palace Sunday night, where they signed the eight-month extension at a formal ceremony. The continuity of the pact means that the peso, currently exchanged at nearly 2,500 to the dollar, will continue to be devalued by one peso daily until March 31, 1990. This pace of devaluation roughly equivalent to slightly less than 20% per annum , is aimed at matching the government's projected inflation rate for the year. In a speech, Salinas said the extension was intended to demonstrate domestic stability and unity to foreign commercial banks. He said, "The renewed pact will strengthen Mexico's negotiating position with the commercial creditors...This basic (domestic) unity now gives us more breathing space not to have to accept just any agreement, but to get a satisfactory agreement. Now, we can count on our internal strength to accept only what is suitable for Mexico." Mexico first proposed an overall reduction of around 55% but is said to have indicated acceptance of between 35% and 45%. Bank creditors have reportedly offered a maximum reduction of 25%. Salinas said the existing pact had been more successful than predicted, bringing inflation down to the lowest level in a decade. He added that domestic interest rates are still too high, but that the extended pact would allow a "significant cut" in these rates. According to the June 20 edition of the Wall Street Journal, the extension of the pact will work in Mexico's favor toward speeding up a conclusion to negotiations on debt rescheduling with the banks. Journal correspondent in Mexico, Matt Moffet, said the extension was a "political victory" for Salinas and reflects the Mexican business community's support for the president. (Basic data from Copley News Service, Notimex, 06/20/89)

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