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Mexico: More On Impact Of Gulf Crisis

by Barbara Khol

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In a recent issue, The Economist Intelligence Unit (Britain), compared the impact of two oil price scenarios on the Mexican economy. In one of the scenarios, tensions continue in the Middle East, with oil prices averaging \$34 per barrel in 1991. The other scenario is based on war in the Middle East. Increased oil export revenues in the first scenario are canceled out by higher debt service payments, and lower non-oil export revenues. An 8% US inflation rate is expected to raise the LIBOR from 8% to 11.5% in 1991, resulting in an extra \$3 billion in interest paid on the foreign debt. Under the second scenario, marked by extensive damage to oil production facilities in Iraq, Kuwait and Saudi Arabia, Mexico's oil export revenues could increase to \$15.2 billion in 1991, compared to \$11.5 billion this year. However, world trade would decline, registering a 2.8% increase, in contrast to an estimated 5.2% in 1990. Consequently, Mexico's non-oil export revenues would drop by more than \$500 million, and GDP growth would decline to 3% in 1991 compared to 5% if war is avoided. Next, Mexico's trade deficit would increase to \$2.3 billion in 1991, bringing the current account deficit to \$7.6 billion, the equivalent of 3.1% of GDP. The 1990 current account deficit/GDP ratio is 2.9%. The Intelligence Unit analysis indicated that in 1992 after the conflict, oversupply of oil in the world market would reduce oil prices to \$21.50 per barrel. In that year, oil export revenues would total \$8.7 billion, \$1.3 billion less than had war not occurred. Interest rates on Mexico's foreign debt would remain high with the LIBOR at 10.5%. Interest on the debt would be \$2 billion higher than in a scenario without war. The only positive element in the 1992 post-war scenario, said the Intelligent Unit analysis, would be a \$500 million increase in non-oil exports. The trade deficit is estimated at about \$3.8 billion. A current account deficit of \$5.6 billion would be equivalent to 2.2% of GDP. (Basic data from Notimex, 10/21/90)

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