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January 1996
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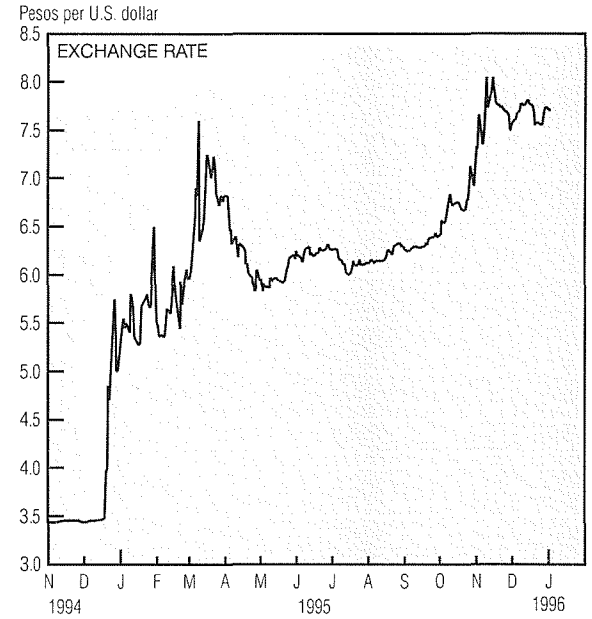
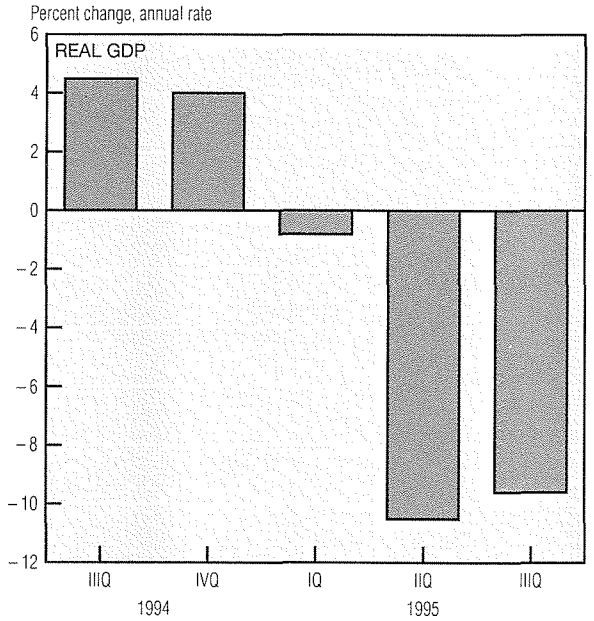
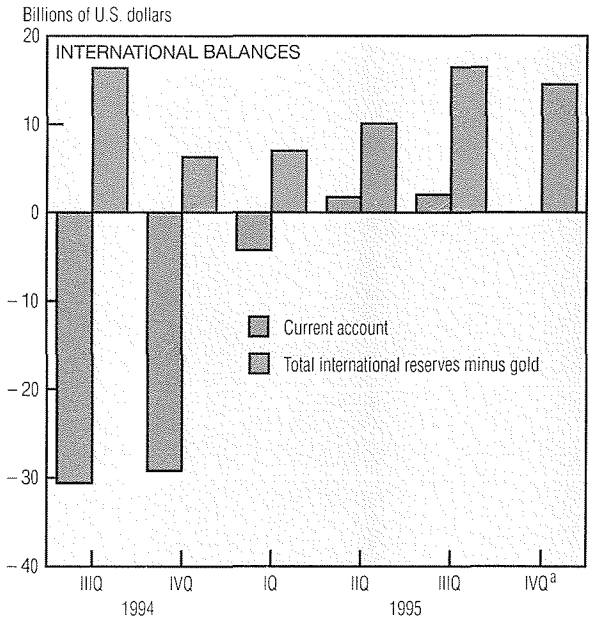
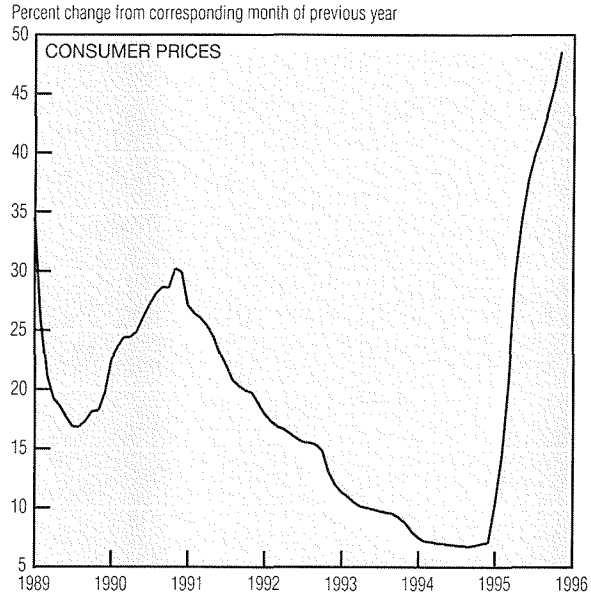
The Mexican Economy









a. Current account data are not available. International reserves data are through October 1995.
SOURCES: DRI/McGraw–Hill; International Monetary Fund; and Board of Governors of the Federal Reserve System.

A year after Mexico's disastrous peso depreciation, the worst of the matter may be over. Mexico's prospects—particularly its access to international capital markets—will depend on the government's capacity to sustain a stabilization program in the face of weak economic activity and a shaky financial sector. Financial market jitters in October and November (which have since calmed) quickly sent Mexican interest rates higher and the peso lower.

Mexico's GDP has contracted sharply since 1994:IVQ. More moderate declines in real economic activity since 1995:IIIQ, coupled with improvements in the nation's export industry, offer some hope that the recession has hit bottom. Nevertheless, the prospects for a rapid recovery this year remain few.

The peso's depreciation and the recession have eliminated Mexico's current account deficit. In October, imports stood 6.7% below year-ago levels, while exports were 35.7% higher. The current account shifted from a $29 billion (annual rate) deficit in 1994:IVQ to a $2 billion surplus in 1995:IIIQ. International reserves, which fell to $6.3 billion by the end of 1994, have since risen to $14.5 billion, although largely from inflows of official funds.

Mexico probably will not sustain a current account surplus once the recent crisis has passed. Countries importing foreign capital for development typically run current account deficits.