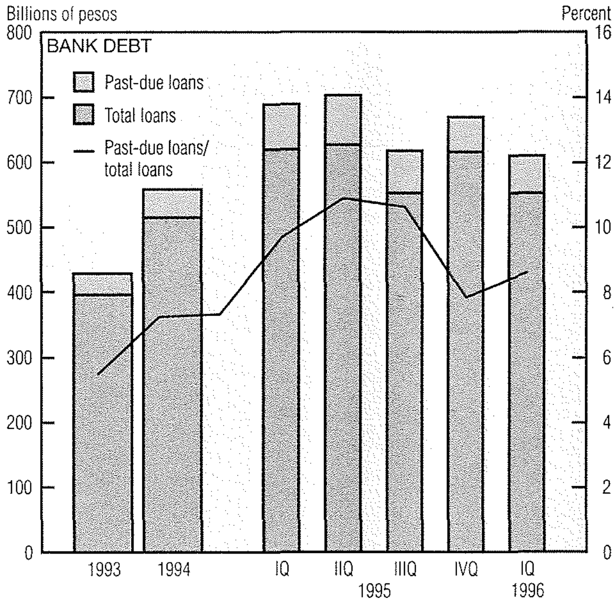
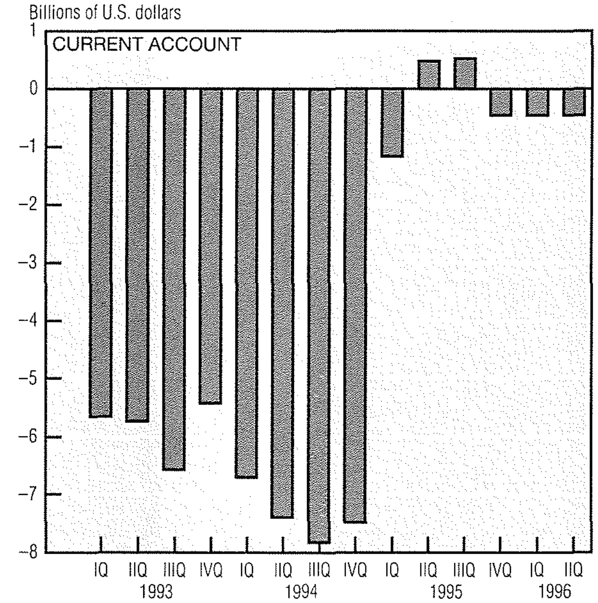
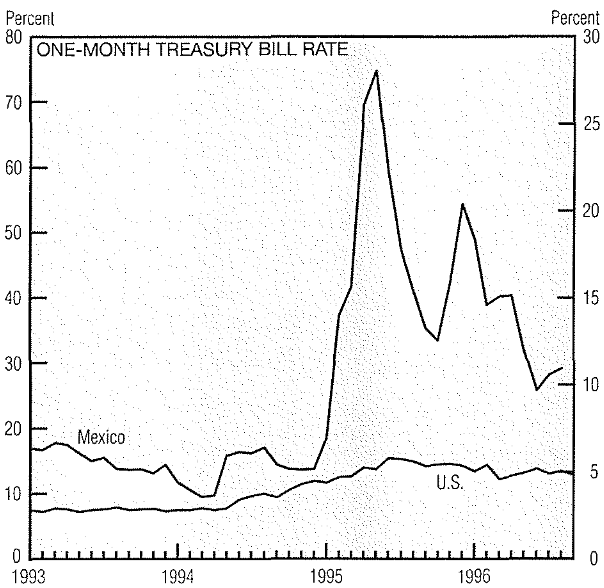
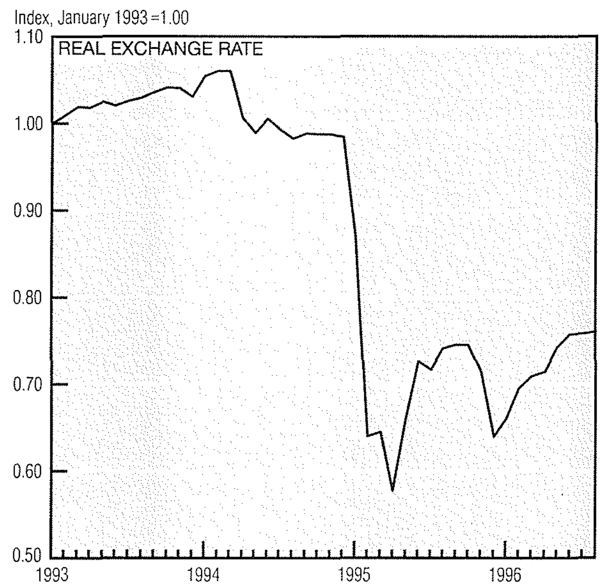
# The Mexican Economy




SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; the Federal Reserve Bank of Dallas; International Monetary Fund, *International Financial Statistics*; and *The Wall Street Journal*.

Analysts now expect Mexico's economy to expand by 4% in 1996, although even the Mexican government's stated goal of 3% was previously viewed with skepticism. Such growth in spending would ease pressure on banks and consumers who are still struggling with high levels of past-due loans.

An array of government programs have been developed to repurchase past-due loans from banks, encourage injection of new capital, and facilitate restructuring of loans. Although the Mexican financial system has been somewhat stabilized by these programs, its continued improvement is closely related to macroeconomic developments. In particular, lower interest rates would make it easier for Mexican debtors to refinance or repay their loans.

Capital inflows, which reflect foreigners' willingness to invest in Mexico, could help to lower interest rates and stabilize the peso. However, monetary policy must prevent such inflows from increasing the Mexican money supply if the current account balance is to continue improving. An increased money supply would lead investors to expect higher inflation and higher interest rates, and thus could lower expenditures on productivity-enhancing investments. This in turn would endanger improvement in export competitiveness and threaten a loss of confidence in Mexico's recovery.