

# THE ECONOMIC SITUATION IN OUR COUNTRY

## President De La Madrid explains to a worried nation the meaning of the oil crisis and the National Government's plans for how to best confront it.

*This February 21st, President Miguel de la Madrid Hurtado went on TV and radio to address the Mexican people and explain how the oil crisis had destabilized the government's plan to salvage the economy without defaulting on the debt, as well as the government's plan for dealing with the dramatic, new situation. Excerpts from the Presidential speech:*

### FELLOW MEXICANS:

*Our national economy today is facing one of its worst challenges of this century. The world petroleum market has plunged into chaotic competition and a generalized price war. The situation severely affects many petroleum exporting countries, above all the developing nations like ours and, though it seems to offer certain immediate advantages to oil consumers, it also has negative repercussions within the industrialized countries. Consequently, we are experiencing a worldwide problem of extraordinary dimensions.*

*Mexico has acted responsibly on the world scene, seeking concerted remedies to prevent the extreme worsening of the problems. Within our borders, we have calmly and objectively evaluated the effects of this situation. National public opinion has been analyzing the situation as well, and understanding is better. We have all seen that the situation is changing so much and so quickly that uncertainty prevails and the ability to foresee events is very limited. Nevertheless, we cannot wait for the vistas to clear to take decisive action.*

*I am speaking to my fellow countrymen today to tell them of the nature of the government's attitude and its action at both the national and international levels, as well as what I require of Mexicans at this difficult moment in our history.*

*According to current estimates, the drop in oil prices may result in the loss to our public finances of approximately three trillion pesos, the equivalent of 12.5% of all public revenues. In the balance of trade, this means that some 6 billion dollars may not be entering the country, which is equivalent to the loss of one-half our income from petroleum exports, one-third of the value of the country's total exports, and almost the same amount as that represented by total income from non-petroleum exports. That is the magnitude of the problem we are facing.*

*This international challenge takes place after three years of enormous efforts on the part of the Mexican people to solve both their internal and external problems. In October of last year, when oil market perspectives were in gradual decline, but did not show signs of collapse, various policy options for 1986 were analyzed. A strategy was devised which aimed to take up with renewed vigor the process to put our economy*

*on a sound footing and reduce inflation, as well as to continue with the in-depth measures for structural change that the nation has demanded to solve its problems at the roots. An so the turn for the worse on the international scene is taking place within the framework of an economic program for 1986 whose severity, even before the drop in oil prices, already demanded an unprecedented effort.*

*The international oil market is in disarray. During the last decade, high oil prices encouraged technological changes to replace petroleum with other energy sources, thus reducing oil consumption and causing an excessive oil production capacity. The lack of international agreement between producing countries as well as the absence of dialog with consuming countries has resulted in disorder and chaos in the international oil market. The persevering and constant efforts that Mexico made during the last three years to avert this situation achieved some results in the first two years, but beginning in the second half of 1985 they were confronted with the insurmountable problem of lack of understanding and willingness to achieve stability and order in the oil market. This situation occurs at a time when there is already a generalized downward trend in the prices of the raw materials we export, and when there are difficulties in obtaining financial flows that are adequate in terms of volume and interest rates.*

*In view of this situation, it has not been possible to achieve sufficient exchange and international cooperation in economic matters, on which Mexico has insisted systematically in international forums and in bilateral relations.*

*The international disorder and its unprecedented impact on the domestic situation call for a firm but serene response. Various groups, both national and foreign, have proposed that in view of this problem, the Government should radically alter the course of its economic policy.*

*To foreign groups holding this opinion we have indicated that we ourselves will decide which actions are necessary to confront this challenge and when and how they will be taken. We shall not permit the course we will follow to be imposed on us from abroad. We will not allow ourselves to be subjugated in conducting our affairs, nor will we allow ourselves to become pawns in a confrontation for the convenience of interested parties in the international conflict.*

*Internally, the discussion frequently centers on a proposal to take action on one single instrument of development: public expenditure. There are those who propose that it should be drastically reduced in order to totally compensate for the drop in oil income; and on the other hand, there are others who recommend that the budget should be increased in order to further stimulate economic activity.*

*In reply to those who ask us to reduce spending to totally compensate for the drop in oil income, we point out that this option, or any similar option that seeks to make Mexicans absorb the greater part of the external disequilibrium, is not feasible. Budget cut backs of such magnitude would imply risking basic food security and the supply of drinking water; suspending works for the country's communications; leaving just demands in education and health unattended and noticeably affecting the performance of the country's strategic*



## documents

companies. This would not be compatible with running the economic apparatus and meeting minimum social needs.

At the opposite extreme, other groups propose a reactivation of spending in order to attend to unsatisfied but legitimate demands, and the stimulation of economic growth, even on the basis of creating the necessary money artificially. Out of context, the idea might seem attractive. But a responsible state must reconcile the attention to inescapable needs and its fundamental commitments with the acute insufficiency of means. A reactivation of public spending under the current circumstances would create a problem more serious than the one we now must resolve.

36

Despite these views, the government of the Republic has decided to persevere, for the most part, in the internal development strategy outlined for 1986, though it is necessary, because of the changing circumstances, to make tactical adjustments in matters and means.

The strategy implies defining the basic ways to achieve our goals; the tactics consist in the means or instruments to follow the strategy.

The domestic strategy now in place is the correct one. It is not an easy or comfortable option, for it implies great decisions, efforts and sacrifices—but it is based on reality and offers viable courses of action. To persevere in it is the only thing that the government of the Republic can responsibly offer. Our domestic economic policy cannot change, neither in its fundamental goals nor in its strategy. Both before and after the oil "shock", the basic problems of our economy remain the same. The additional difficulties that we now face do not change the nature of those problems except to make them worse. That is why neither the goals nor the fundamental strategies can change, even if we must act flexibly, using the different instruments of economic policy and seeking further room for action.

However, my fellow Mexicans, in spite of all our internal efforts, we cannot expect that the impact of these fiscal, financial and trade measures will suffice to counteract the decline of oil revenue in the short term. This is why it is necessary to reexamine, in the light of our new circumstances, our policy on foreign debt, additional financing and trade relations.

The positions that will be presented to the international financial community in the next few days will be put forth in a context of dialog and negotiation. We do not want confrontation, but rather an honorable and realistic arrangement. We wish to continue being reliable and respected members of the international community, but this attitude gives us the right to fair and objective treatment.

Mexico has been exceptionally responsible in its financial relations with other countries. It has not resorted to confrontations, which benefit no one, and it has refused to engage in unilateral solutions. Mexico now expects that this attitude will be accorded its true value by other countries.

We shall revise the financial terms of the debt service, adjusting them to the country's capacity to pay. The foreign debt policy will have to ensure that the schedules agreed upon with creditors not only consider the short-term liquidity problem, but are also consistent with the net requirements for funds in future years, favor the operation of our economic system and the essential recovery of our capacity to grow and generate employment. Permanent stagnation is unacceptable for Mexico and is not advantageous to the international economy.

The net effect of the loss in petroleum income on the 1986 balance of payments cannot be compensated for solely through increased foreign indebtedness via new flows of credit. This would take us into an endless vicious cycle. The adjustment also calls for sacrifices on the part of the international creditors who have been jointly responsible for the process of indebtedness.

In the handling of negotiations abroad, the prevailing criterion must be that any lasting solution to the problem of the debt requires the solution of the following questions:

- Adjustment of the service of the debt to the country's actual capacity to pay;
- Sufficient financing mechanisms and reduction of their cost;
- Opening of markets that will allow us to export in order to strengthen our capacity to grow and to pay, and
- A favorable international climate that will contribute to effective and prompt solutions for cooperation in the different areas of the world economy.

Given the nature and magnitude of the problem it is impossible at this point, and without the participation of our creditors, to lay out a definitive plan. Based on the foregoing criteria, this will be worked out during conversations with the parties involved.

Consequently, we shall make an in-depth restatement of the situation regarding the service of the debt, in accordance with the country's capacity to pay and taking into consideration the uncertain fluctuations in our petroleum income and the vital interest of keeping our economic system operating and recovering our growth and employment capacity. We shall not ask the international community to solve all our problems, but rather to complement the far-reaching and strong efforts we Mexicans are making here at home. We hope that these negotiations will be marked by realism, equity and absolute respect for our sovereign rights.

### MEXICANS:

Today is a time for responsibility, for clear identification with the values and institutions of the nation. It is a time for



Mexican President Miguel de la Madrid. Photo by Renzo Gostoli.



*courage, for staying calm in the face of adversity, for firmness in carrying out decisions, and for steadfast perseverance in the efforts to be made*

*I have always spoken truthfully during my administration I have told the people what can be done and what cannot I have governed realistically and in accordance with our principles Now more than ever, I am governing for all Mexicans, for those of today and those of tomorrow*

*My commitment is indestructible: it is to the campesinos, to the workers, to the middle classes to businessmen, to intellectuals, to members of the professions to the men and women of Mexico, and to its youth*

*To aid us in confronting the harsh adversity of our times we have the strength that stems from what we have achieved and, above all, the great nation that we Mexicans have built in the course of our history. Every memory of the great undertakings of our past gives strength to our unity and guarantees our progress*

*I have pointed out that I will not change the domestic policies under way, though I will be capable of adapting tactics to the new circumstances Given the dimensions of the problem that we are facing its solution within our borders lies in pursuing the strategy of structural change that we have set up for ourselves and that was defined in the 1983-86 National Development Plan*

*It is now up to our creditors to make an effort at least commensurable to the great task and sacrifices undertaken by the Mexican people*

*I will not deal with the enormous challenge now threatening us from abroad by such means as lowering the living standards of Mexican campesinos or cutting the real wages of my country's workers*

*The priority today, more than ever, is to defend the vital interests of the Mexican people*

*I repeat that I will not make any economic concessions that undermine our national sovereignty*

*We Mexicans have been imaginative and firm in devising formulas for dealing with our domestic problems, laying aside any spirit of confrontation, the international community will now have to share the responsibilities and join us in seeking solutions that are viable both from the point of view of Mexico's vital interests and from that of the harmonious relations that should exist among the diverse economies of the world*

*The initial strategy for 1986, prior to the collapse of petroleum prices, already implied an unprecedented effort on the part of the Mexican nation To attempt to accommodate the drop in oil income solely by increasing domestic austerity measures could have an unacceptable effect on the working of the Mexican economy and the living standards of its inhabitants No one is obliged to do the impossible*

*As President of the Republic, I undertook a commitment to the nation to govern in such a way as to preserve and strengthen national independence and to respect and enforce respect for the system of laws emanating from the Mexican Revolution, to safeguard and add to individual and collective freedoms; to enrich the political, economic and cultural aspects of democratic life, to seek the brotherly and harmonious coexistence of all Mexicans and to maintain and reinforce the peace of the Republic. That is my obligation; I have carried it out during these three years, and I shall do so throughout my administration.*

*In view of this unprecedented effort the Republic requires of its citizens, I pledge that I shall follow as my only guide and purpose the defense of our national integrity, respect for the law, the safeguarding of our freedoms and the protection of our social rights. I shall defend the national economy up to the limit of the traditional ability for negotiation and political clarity of the Mexican people while trying to avoid confrontations which would harm us all*

*We must enhance our national renewal —these are times for decisive action. Let's set aside our quarrels and let us concentrate our efforts on the solution of this major problem facing us I call on the nation to participate united and to join*

*together to defend the basic principles which we Mexicans have upheld throughout our history Nobody can stand aside from this great struggle in which we are engaged Every sector of society has a commitment in the face of this challenge: they must take their place in the battle for the nation For my part, I reconfirm my personal, moral and political commitment to serve the nation to the utmost limit of my capacity, bearing no other interest in mind than that of our homeland, which we must all love more now than ever before. Long live Mexico! ★*