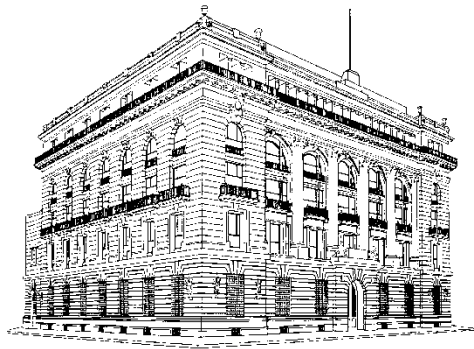


Exchange Rate Regimes in Mexico since 1954



BANCO^{DE}MEXICO

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This document describes the various exchange rate regimes that have existed in Mexico since 1954, and complements the historical exchange rate time series published by Banco de México¹.

Different regimes have been used to determine Mexico's exchange rate (Chart 1), some of which have relied on more than one official currency conversion reference, which is why the creation of an historical series requires a certain amount of analysis. The sections below describe the main characteristics of each regime.

Chart 1
Summary of Mexico's exchange rate regimes since 1954

Date	Regime	Exchange Rates	Quotes*	
			Beginning	End
April 19, 1954 – August 31, 1976	Fixed Rate	Fixed	\$ 12.50	\$ 12.50
September 1, 1976 – August 5, 1982	Managed floating rate	Currency/document transactions	\$ 20.50	\$ 48.79
August 6, 1982 – August 31, 1982	Multiple exchange rate	General	\$ 75.33	\$ 104.00
		Preferential †	\$ 49.13	\$ 49.81
		'Mexdollar' ‡	\$ 69.50	\$ 69.50
September 1, 1982 – December 19, 1982	Generalized exchange rates' control	Preferential	\$ 50.00	\$ 70.00
		Ordinary	\$ 70.00	\$ 70.00
December 20, 1982 - August 4, 1985	Exchange's control	Controlled	\$ 95.05	\$ 281.34
		Special	\$ 70.00	\$ 281.51
		Free	\$ 149.25	\$ 344.50
August 5, 1985 – November 10, 1991	Regulated Float	Managedequilibrium	\$ 282.30	\$ 3,073.00
		Free	\$ 344.50	\$ 3,068.90
November 11, 1991 – December 21, 1994	Exchange rate bands with managed slippage	"FIX"	\$3,074.03	N\$ 3.9970
December 22, 1994 – present	Free Float	"FIX"	N\$ 4.8875	-

* Buy/sell average. Guide: \$ = "old pesos"; N\$ = "new pesos"

† The same exchange rate was used for buying or selling.

‡ The peso traded at the specified exchange rate in effect only from August 19-31, 1982.

¹ This series should be used as a reference and for analysis purposes only. It should not be used as official data or for legal purposes, and therefore Banco de México is not responsible for the use to which it may be put ([see series](#)).



1. Chronology of exchange rate regimes

I. Fixed rate regime (April 19, 1954 – August 31, 1976)

For several years prior to 1954, the Mexican peso was relatively stable against the US dollar at around 8.65 pesos per USD. In 1954, however, certain unfavorable conditions occurred in Mexico, which were discussed in Banco de México's Annual Report for that year:

"The difficulties that affected the US economy in 1954 caused considerable uncertainty and imbalances in the economies of many other countries..."

Citing the September 1st, 1954 State of the Nation Address, the Annual Report writes:

"'Since late 1953... the peso's financial position became gradually weaker, due to increasingly bigger trade imbalances, which were ultimately reflected in the balance of payments ...'

'Between 1951 and 1953, Banco de México's international reserves decreased by 55 million dollars, and during the first three months of 1954 and the first 14 days of April by 43 million, reflecting the Mexican peso's fragile international situation. At the same time, during the first few months of 1954, the trade imbalance continued to grow, mostly due to greater domestic economic activity...'

In order to correct these imbalances, on April 19, 1954, the peso was devalued and fixed at 12.50 against the dollar.²

II. Managed floating rate regime (September 1, 1976 – August 5, 1982)

A fixed peso/dollar exchange rate of 12.50 was maintained until September 1976, when it was replaced by a managed floating exchange rate regime. Banco de México's 1976 Annual Report mentions some of the factors that led to this decision:

"The performance of the [domestic] economy in 1976 was unfavorable; inflation rose notably... and there was a marked slowdown in economic growth..."

"Following rising public sector deficits in 1973 and 1974, which had to be increasingly financed using internal and external inflationary funding sources, and rising international prices, fundamental imbalances caused by growing demand and domestic production shortfalls worsened. These imbalances were clearly reflected in higher inflation and a growing balance of payments current account deficit..."

"Conditions of financial uncertainty that characterized 1976 began to manifest themselves as of 1975. In fact, domestic savers began to show a clear preference for liquid banking instruments, triggering a process whereby local currency-denominated financial assets were converted into foreign currency-denominated assets. As a result of the level of liquidity achieved, this process

² Official Federal Gazette, April 20, 1954.



intensified in 1976 with the general public showing a clear preference for investing their savings abroad...”

In view of the aforementioned imbalances in both the current account and the capital account, on September 1, 1976, the fixed exchange rate regime was replaced by a managed floating rate regime. Under the new system the “Central Bank would not necessarily intervene in the foreign exchange market to support the peso”³, “it would only do so to prevent sharp fluctuations.”⁴ Consequently, the new regime began with a peso/dollar exchange rate of 20.50 and, by the end of the period it was 48.79.

During the managed floating rate regime there were in practice two exchange rates: one for currency transactions and another one for transactions with documents. Although buy/sell quotes for each exchange rate were often different, the average buy/sell quote usually coincided.

III. Multiple exchange rate regime (August 6, 1982 – August 31, 1982)

At the end of 1981 and in 1982, the Mexican economy entered a phase of instability which was described in Banco de México’s 1982 Annual Report:

“Higher domestic versus external inflation, the economy’s dependence on oil revenues and the fall in the oil price adversely impacted exchange rate expectations. This encouraged the conversion of pesos into dollars, drained foreign reserves and ultimately triggered the February 1982 devaluation. At the same time, the devaluation and the March wage revision resulted in additional inflationary pressures that together with the difficulties accessing external funding further impacted expectations.” In the months which followed, this vicious circle forced the financial authorities to take several measures to control foreign exchange market transactions.”

Thus, as of August 6, a dual exchange rate regime was introduced: a “preferential” one and a “general” one. The same Annual Report explained how each would apply:

“The preferential exchange rate was fixed at 49.13 pesos against the dollar [with a daily slippage of 4 cents, excluding Saturdays and Sundays]; it will be applied to imports of essential goods, such as food as well as some inputs and capital goods required for production. Dollars destined for interest payments on external public debt and private sector debt, as well as Mexican banking system foreign obligations, will also be sold at the preferential exchange rate... The general exchange rate will be determined by foreign currency supply and demand and apply to transactions not covered by the preferential exchange rate.”

However, the 1982 Annual Report also states that:

“Public reaction to the dual exchange rate system was one of surprise and uncertainty regarding the foreign exchange market’s future trend. Thus, in the days following the announcement of the new exchange rate regime, the general exchange rate rose as demand for dollars grew. To stop this situation from worsening, on August 12, the financial authorities decided to close the foreign exchange and metals market, and the exchange rate for foreign currency deposits was subsequently set at the then current level of 69.50 against the dollar...”

³ Banco de México’s 1976 Annual Report, p. 30.

⁴ Banco de México’s 1980 Annual Report, p. 35.



“Following the announcement of the reopening of the foreign exchange market in banks on August 19, a third peso/dollar exchange rate was introduced which fixed the peso at 69.50 against the dollar for the settlement of foreign-currency denominated obligations payable in Mexico. Such obligations would henceforth be known as ‘mexdollars’...”

It should be noted that even during the period in which the foreign exchange market was closed, the peso’s daily slippage against the dollar was maintained such that by August 19 the preferential exchange rate was 49.29 and by August 19 it was 49.49.

IV. General controlled exchange rate regime (September 1, 1982 – December 19, 1982)

In its 1982 Annual Report Banco de México wrote: “Despite the recently mentioned foreign exchange regulatory measures, at the end of August some speculative movements in the foreign exchange market further eroded Central Bank foreign reserves. Protecting international reserves thus became the focal point of foreign exchange policy.”⁵ Thus on September 1, 1982, the “general controlled exchange rate regime” was introduced, which effectively abolished the exchange rates of the previous regime. Furthermore, Banco de México’s Annual Report states that “In accordance with the corresponding decree, credit institutions may not enter into foreign currency and metal transactions of any kind, only authorized buy transactions on behalf or upon request of Banco de México.”⁶ Two exchange rates were also introduced: a “preferential” one and an “ordinary” one determined by Banco de México.⁷

The decree published in the Official Federal Gazette on September 1, 1982 stated that “Banco de México... will determine when the preferential exchange rate applies and when the ordinary exchange rate applies as well as the need for any temporary or permanent special exchange rates.” As a result, on September 6, 1982, the Central Bank published the following in the Official Federal Gazette:

“In the following cases the preferential exchange rate will be used to calculate the local currency equivalent:

Payment by companies in Mexico of principal, interest and other concepts related to foreign currency-denominated bank loans....”

“Foreign currency buy/sell transactions to settle imports of goods authorized by the Mexican Department of Trade in accordance with its regulations.

Foreign currency buy/sell transactions to cover principal, interest and other payments on loans from foreign banks to Federal Government departments and/or entities and companies located in Mexico ...”

“The ordinary exchange rate will be used to calculate the local currency equivalent for foreign currency transactions other than those mentioned [covered by the preferential exchange rate].

⁵ Banco de México’s 1982 Annual Report, p.129.

⁶ *Ibid.*

⁷ Official Federal Gazette, September 1, 1982.



Consequently, this exchange rate should be used for the conversion into pesos of foreign currency-denominated bank deposits.

The ordinary exchange rate will also apply to the payment of foreign currency loans by companies acting as financial intermediaries as well as foreign currency sales such companies undertake to settle loans from foreign banks.”

The “preferential” exchange rate was 50 pesos against the dollar until September 13, 1982, when it was subsequently fixed at 70 pesos⁸, while the “ordinary” exchange rate was set at 70 pesos against the dollar until December 19, 1982.

V. Controlled exchange rate regime (December 20, 1982 – August 4, 1985)

Following the presidential changeover in December 1982, on December 13 that year the Official Federal Gazette announced a controlled exchange rate system which would replace the generalized exchange rate control as follows:

“Two foreign currency markets will exist side by side within the Mexican Republic: a controlled one and a free one.

Controlled Market

The controlled foreign exchange market covers the following concepts:

- a) Exports by private individuals or corporations ...
- b) Assembly plant payments...
- c) Principal, interest and other concepts determined by Banco de México on foreign-currency loans taken out by the Federal Government, Federal Government Entities and other companies located in Mexico...
- d) Imports of merchandise and demonstrable related expenses payable abroad and determined by the Department of Trade...
- e) Expenses corresponding to the Mexican Foreign Service and quotas and contributions corresponding to Mexico’s participation in International Organizations; and
- f) Concepts generally determined by the Ministry of Finance and Public Credit at Banco de México’s suggestion, based on their importance to the domestic economy or similarity or connection to foregoing ones...”

“Free Market”

The free market covers foreign currency transactions not subject to the controlled market.

Free market transactions, including the buying and selling, possession and transfer of foreign currency, are not subject to restrictions.

Exchange rates agreed on by the contracting parties will apply to foreign currency buy/sell transactions covered by the free market.

“Complementary Provisions [and special exchange rate]”

⁸ Official Federal Gazette, December 13, 1982.



“Foreign currency obligations entered into as of the date of this Decree, either inside or outside the Mexican Republic to be settled in Mexico shall be settled in local currency at the controlled sell rate in effect at the time of payment...”

“Foreign currency obligations entered into prior to this Decree, either inside or outside the Mexican Republic to be settled in Mexico shall be settled in local currency at the special exchange rate determined by Banco de México at the time of payment.

Banco de México will determine the special exchange rate based on the characteristics of the transactions in question”

“This Decree will be effective as of December 20, 1982.”

Under this new system Banco de México fixed the exchange rates: “The reordering of the foreign exchange market required...fixing the free and controlled market exchange rates...”⁹

According to Banco de México’s Annual Reports from 1982 to 1985, during these years the different exchange rates behaved as follows:

- a. The controlled exchange rate: following the introduction of the new regime the peso traded at a buy rate of 95.00 and at a sell rate of 95.10 with a daily slippage (including Saturdays and Sundays) of 13 cents. On December 6, 1984 the slippage increased to 17 cents daily and on March 6, 1985 to 21 cents daily. Finally, on July 25, 1985, this exchange rate was devalued 20 percent and maintained a slippage of 21 cents.
- b. The special exchange rate: on December 20, 1982 the peso was fixed at 70 against the dollar with a daily slippage of 14 cents. On March 16, 1983, a decision was made to align the special exchange rate with the controlled exchange rate as many financial intermediaries were suffering foreign exchange losses. On this date the special exchange rate was 106.28 pesos and the controlled rate was 106.23 pesos. As of then the special exchange rate’s slippage became the same as the controlled rate’s in terms of both the amount and the dates on which slippage increased (in July 1985 it was devalued).
- c. The free exchange rate: this was established to discourage the parallel foreign currency market and traded at a buy rate of 148.50 on December 20, 1982, and at a sell rate of 150.00. It remained basically constant until on September 22, 1983, when a daily slippage of 13 cents was introduced. Slippage subsequently increased on the same dates and by the same amount as the controlled exchange rate until on July 11, 1985, daily slippage was abandoned, and this rate (free rate) became a floating one.

VI. Regulated floating rate regime (August 5, 1985 – November 10, 1991)

⁹ Banco de México’s 1983 Annual Report, p. 91.



Towards the end of 1985, it was considered that foreign exchange policy at the time did not take account of the prevailing and expected trend in monetary aggregates or their impact on international reserves,¹⁰ as the exchange rate moved evenly in accordance with a daily slippage and not in accordance with prevailing conditions. Therefore it was announced that:

“...as of August 5, a regulated floating system will be introduced to replace the even slippage in effect since December 1982. Under the new system the controlled exchange rate will be modified on a daily basis by not necessarily even amounts and not abruptly. This system will accommodate the controlled exchange rate to internal and external circumstances in a flexible and gradual way ...”¹¹

The new system did not alter the free market, which no longer had a daily slippage, but modified the controlled market: the “managed equilibrium exchange rate” replaced the controlled exchange rate, and although there were no changes in the concepts applying to this market, the exchange rate was determined differently.

In order to determine the “managed equilibrium exchange rate” sessions between Banco de México and the country’s banks took place on working days. During these sessions the Central Bank would receive dollar buy or sell bids from banks at a previously announced exchange rate, and subsequently adjust it to obtain a supply / demand equilibrium. The resulting exchange rate would be published the following working day in the Official Federal Gazette and would be used to settle foreign currency-denominated obligations two working days later.¹²

VII. Exchange rate band with managed slippage regime (November 11, 1991 – December 21, 1994)

In order to “provide exporters and assembly plants with a stimulus”¹³ as of November 11, 1991, exchange rates were no longer managed and the free and controlled exchange rates were unified. The new system consisted of letting the exchange rate float within a band which widened on a daily basis. The floor of the band was set at 3,051.20 pesos against the dollar while the ceiling was adjusted upwards by 20 cents daily (including Saturdays and Sundays) from 3,086.40 pesos. On October 21, 1992, the ceiling’s slippage was increased to 40 cents daily.¹⁴

VIII. Free floating regime (December 22, 1994 – present)

In 1994, several events occurred in Mexico which caused market instability and resulted in a speculative attack on Banco de México’s international reserves at the end of that year,

¹⁰ Banco de México’s 1985 Annual Report, p. 30.

¹¹ Banco de México’s 1985 Annual Report, p. 31.

¹² Official Federal Gazette, July 31, 1985.

¹³ Banco de México’s 1991 Annual Report.

¹⁴ Banco de México’s 1991 – 1994 Annual Reports.



making the exchange rate band regime unsustainable. Banco de México's Annual Report for that year describes the main events leading up to this:

"In 1994 the foreign exchange market was subjected to several bouts of pressure. In February, US interest rates began to rise, which along with the factors described below triggered a rapid depreciation of the Mexican peso within its floating band..."

"Furthermore, in February 1994, and for some time afterwards, events of a political and criminal nature occurred, which had a strong negative impact on markets. The kidnapping of prominent businessmen and the direction of the negotiations and general sentiment related to the armed conflict in Chiapas caused an enormous amount of uncertainty, pushing the exchange rate to levels close to the band's ceiling..."

"On March 23, PRI presidential candidate Luis Donaldo Colosio was assassinated. The crime itself as well as uncertainty about the author and the course the investigation subsequently took, caused widespread concern. Banco de México's reserves, which on the day of the assassination amounted to 28.321 billion dollars, decreased 11 billion dollars over the following thirty days..."

"In mid November another political event occurred which triggered further disquiet. Accusations made by Deputy Attorney General Mario Ruiz Massieu gave rise to serious doubts about the stability of Mexico's political system, eroding international reserves by an additional 3.5 billion dollars..."

"Renewed hostility from the EZLN at the beginning of December translated into additional jitters, especially following the armed group's December 19th manifestos. This, along with greater volatility in international financial markets and the perception among some investors that the government could have difficulty financing the 1995 current account deficit, unleashed a major speculative attack on the peso ...

"Thus, on the evening of December 19, 1994, the Foreign Exchange Commission reached an agreement to replace the previous exchange rate regime with a floating rate regime making the announcement to the "Pact" forum. There was also a widely held view in that forum that before floating the currency an attempt should be made to stabilize the foreign exchange market by raising the band's ceiling. The Foreign Exchange Commission accepted this proposal, but as it widely known, the attempt failed, and so it was agreed that a floating rate regime would be implemented as of the 22nd of the same month".

Under the floating rate regime, which has remained in effect ever since, the exchange rate is determined by the free market without the intervention of the authorities. [Banco de México foreign exchange market operations](#) take place through pre-announced mechanisms and on the basis of transparent rules.

2. Further Considerations

"FIX" Exchange Rate



Since November 11, 1991, Banco de México has published a reference exchange rate called the “FIX” rate, which can be used by private individuals for foreign exchange transactions, although parties to a contract may also agree on another exchange rate.

Banco de México determines the FIX exchange rate based on average wholesale foreign exchange market quotes provided by foreign exchange transaction platforms and other electronic media representing the foreign exchange market for transactions to be settled within two bank working days. Banco de México announces the FIX rate after 12:00 noon each working day, it is published in the Official Federal Gazette (OFG) one bank working day following its determination and is used to settle dollar-denominated obligations in Mexico one day following its publication in the OFG. For further details on this exchange rate please consult the provisions published in the [March 22, 1996 Official Federal Gazette, numeral M86 of Banco de México circular 2019/95](#) and [Amendment to Provisions for the determination of the exchange rate for settling foreign currency denomination obligations payable in Mexico published in the OFG on November 10, 2009.](#)

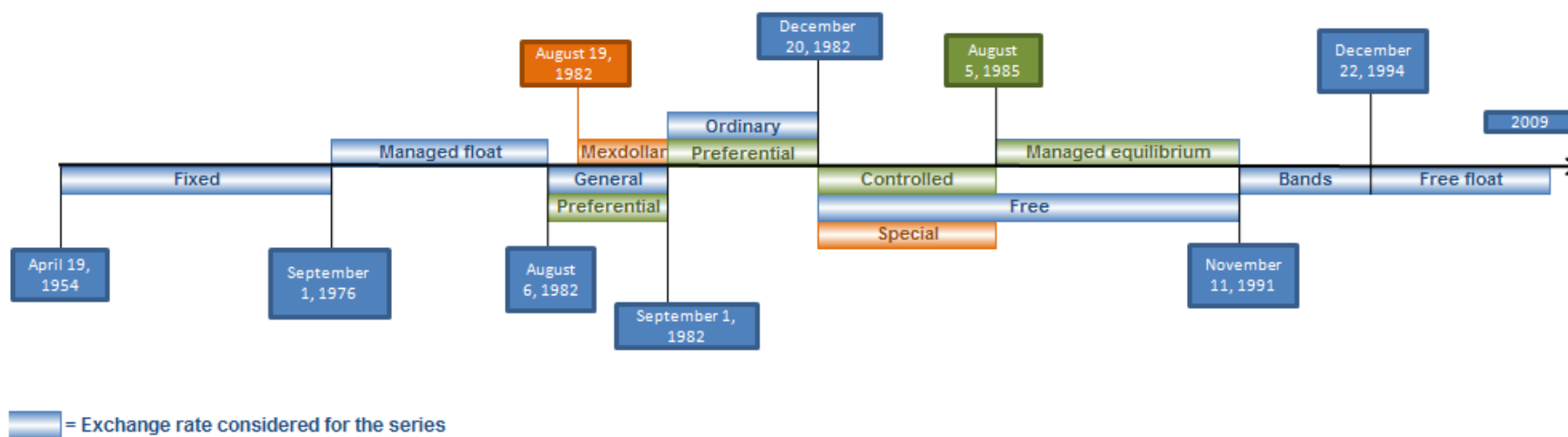
Scaling of historical exchange rate

As of January 1, 1993 Mexico introduced a new monetary unit called “new pesos”. The name “new pesos” eventually gave way to the current peso. One current peso or “new peso” is equivalent to one thousand (1,000) old pesos.¹⁵ The historical exchange rate series is expressed in current pesos. For example, in 1960 the peso/dollar exchange rate was 12.50, which in today’s pesos would be 0.0125.

¹⁵ Official Federal Gazette, June 22, 1992.



Figure 1
Exchange rates in Mexico since 1954





Annex 1 Considerations regarding exchange rate data used in the historical series published by Banco de México

Given that there have been periods in which more than one foreign exchange market has existed, the criteria for selecting the exchange rates comprising Banco de México's historical series considered parities for private individuals not regularly involved in foreign currency buy/sell business transactions.

April 19, 1954 to August 31, 1976

- **Fixed at 12.50**

September 1, 1976 to August 5, 1982

- **Controlled float for bank note transactions:** during this period there was only one foreign exchange market. However, there were two types of exchange rate: one for currency and another for documents and although buys/sell quotations were different, the average rate was usually the same in both cases and so the currency transaction series was used.

August 6 to 31, 1982

- **General:** the preferential rate only applied in some cases such as to debt payments or some imports. The general rate was considered as best reflecting the foreign exchange market instability at the time. The "mexdollar" was not used because it only applied to the conversion of foreign-currency denominated deposits.

September 1 to December 19, 1982

- **Ordinary:** this was a more representative rate than the preferential one for the same reason as above, as the preferential rate was only applicable in certain circumstances. It remained at 70 pesos against the dollar for the entire period.

December 20, 1982 to August 4, 1985

- **Free:** The free rate was considered in the series, as the controlled rate had restricted applications and does not therefore represent the exchange rate at which an individual would undertake a daily buy/sell transaction. The special rate only applied to the conversion of "mexdollars".

August 5, 1985 to November 10, 1991

- **Free:** as in the previous period there were restrictions on transactions using the "managed equilibrium exchange rate" (in other words, in the controlled market) and so the free rate was deemed to be the most representative of the period, as any individual not involved in business activities could undertake transactions using this parity.



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November 11, 1991 to date

- **Free float:** reference rate on a given date known as the “FIX”.