



Ventramex and the Mexican Peso Crisis Harvard
Case Solution & Analysis



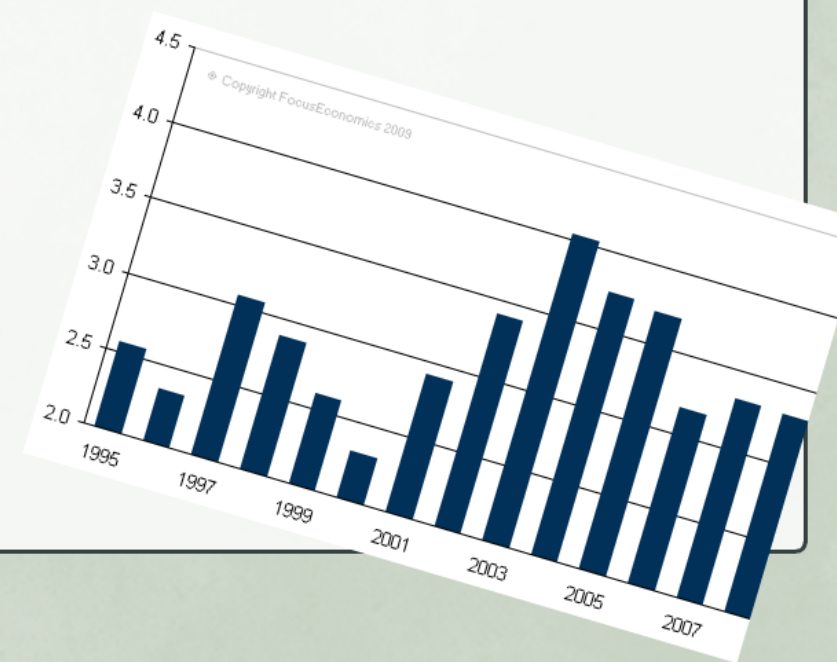


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Mexico before the Crisis

- Mexican economy was fairly stable
- Inflation was low
- FDI was increasing



What caused the Crisis?

- > NAFTA (North American Free Trade Agreement)
- > Increase in risk premium
- > Depletion of Federal Reserves
- > Devaluation of the Mexican Peso

NAFTA

- Mexico decided to implement policy reforms to avoid messing up their commitments made under NAFTA which lead to the overvaluation of the peso.
- Once the peso became over valued the exchange rate became too high to maintain the balance of payments between the US and Mexico.

Increase Risk Premium

- During this period, Chiapas began to rebel which caused the risk of Mexico to default to increase.

Depletion of Federal Reserve

- In order to combat the overvalued peso, Mexico tried to maintain a fixed exchange rate by selling assets, but this method did not work in Mexico's favor.

Devaluation of Mexican Peso

- December 20th, 1994 : Mexico devaluated the peso by 15%
- In order to prevent inflation in the United States, the Federal Reserve System concurrently increased interest rates in the U.S.

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