Mexican government desperate after failure of much-touted Brady Plan

by Héctor Apolinar

The so-called Brady Plan, offered by the Bush administration in a lame effort to "solve" the foreign debt problem of the developing sector nations, is now seen everywhere as a dismal failure, starting with Mexico, which was supposed to be the "test case" for the plan. Since September, numerous bankers have rejected Bush's pleadings, insisting that Brady's offers to reduce other nations' foreign debts is like betting at poker with someone else's hand. Even French President François Mitterrand, while in Venezuela, said that the debt proposal of U.S. Treasury Secretary Nicholas Brady was useless, because it is "too slow and biased."

In Mexico the alarm sounded on Oct. 31, the deadline set by the Mexican government for receiving the responses of its 500 creditor banks to the three options proposed by Mexico's debt negotiators. Those options are reducing debt capital by 35%; lowering the interest rate on the $53 billion of Mexican public foreign debt to 6.5%; and finally, granting new credits.

By Oct. 31, approximately half of the creditors had not yet responded. Of those who did, 50% opted for reducing capital payments by 35%, in exchange for long-term bonds at commercial interest rates. Another 40% of the banks chose reducing the interest rate in exchange for long-term bonds; and only 10% promised new credits.

On July 22, at the signing of the initial agreement with the creditor banks, Mexican authorities had hoped that at least 60% of the banks would opt for reducing interest rates, 20% for reducing capital, and 20% for granting new credits.

The negative news places the government of President Carlos Salinas de Gortari in a very compromising situation, since in his July 23 speech to the nation, Salinas had announced the signing of an "historic agreement," by which Mexico would get the creditor banks to reduce the foreign debt and expand economic resources to begin growing again.

On Nov. 1, President Salinas gave his first state of the nation address and, to his dismay, was unable to announce any encouraging news regarding negotiations with the banks. Reliable political sources commented that during the preparation of his speech, Salinas had asked Finance Secretary Pedro Aspe if he could make any positive announcements regarding the negotiations. Aspe answered "no." Private financial sources reveal that Aspe is hoping that the 50% of the banks which had not come up with a response would do so by the end of the month. On Dec. 1, Salinas completes his first year in office.

The disheartening news has caused something akin to hysteria among Mexican financial authorities. On Oct. 31, unidentified spokesmen of the Finance and Public Credit Ministry "leaked" to the daily *El Financiero* that 20% of the creditor banks had opted to grant new credits to Mexico. It turned out to be a lie. On Nov. 2, Reuters news agency quoted various London economists saying that Mexican authorities were already admitting that only 10% of the banks would come up with new credits. The economists insisted, however, that this did not mean the failure of the Brady Plan, since "neither the United States, nor the multilateral institutions, nor obviously Mexico, can permit it to fail. This agreement must be a success."

The same sources said that the changes in the anticipated percentages of banks that chose various options will require the Mexican government to commit more money to the $7 billion fund established in July as a guarantee for those banks which opt to reduce capital and interest rates.

These statements from London fell like a bath of ice water on the Mexican government. According to Reuters sources, Mexico could find itself forced to disburse money from its own foreign reserves, which currently stand at $7.3 billion. The other possibility, according to these sources, is that the U.S. Treasury will come up with these additional guarantee funds!

The $7 billion guarantee fund is to be made up of $2 billion from the International Monetary Fund, $2 billion from the World Bank, $2 billion from the Japanese government, and $1 billion from the Mexican government. The money, once pulled together, will be deposited in the U.S. Federal Reserve Bank in exchange for 30-year zero coupon bonds, which will be delivered to the creditor banks. Not until Nov. 3 did leading debt negotiator Angel Gurría publicly admit that with the majority of the creditors opting for capital reduction, Mexico is obliged to come up with more liquid funds to

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guarantee the pact.

But on Nov. 13, the Mexican government received a new setback. The *New York Times* cited Wall Street banking sources saying Mexico would receive only half of the $9 billion in new credit it hoped to receive during the 1990-94 period, since only 10% of the banks were committed to new lending.

The reduction in foreign credit opportunities leaves the Salinas de Gortari government facing a bleak economic future. Less foreign credit means that the government will have to hike taxes, accelerate the sale of strategic state sector companies, and increase austerity in government spending and in internal government indebtedness.

If the stock exchange falls, so does government

The bad news on the bank deal has sunk internal economic expectations. On Oct. 16, the country underwent a financial shock when the Mexican Stock Exchange (BMV) fell, a panicked response by investors to the Wall Street plummet. That same day, the BMV lost 35,000 points, though financial analysts and stockbrokers told *EIR* privately that the fall was *vertical*, and actually declined 50,000 points, to a general index of 443,000. Immediately, government financial authorities and brokerage directors injected money to halt the collapse and avoid the kind of generalized panic that occurred in October 1987, when the crash then led to a loss of $20 billion.

The Salinas government offered the brokerage firms a $2 billion line of credit it manipulated the sale of government paper on the exchange, to prevent the index from falling any further.

The government's intervention was futile, since the general stock index continued to fall for four consecutive weeks. On Nov. 13, the index had reached 368,000 points, the lowest in the past four months. Not even Salinas's state of the nation address helped to awaken the stock market, which has depreciated 16.8% through the end of November.

For the government, the stock market fall was of singular importance, since during the first six months of this year, 92% of government income generated through public debt bonds came from the stock exchange. In fact, government paper traded on the stock market represents 98% of all operations conducted on the stock exchange. This faithfully mirrors the unreality of so-called "re-privatization of the economy."

The stock market fall triggered massive purchases of gold coin and a consequent surge in the price of gold. It has also triggered a rise in the interest rates paid by the government for public internal debt bonds. In the three weeks through mid-November, interest rates on Treasury Certificates rose from 35% to 39%. This, in turn, poses a regression in government strategy, which as of July 23 lowered the internal interest rate on short-term investments from 45% to 35%. At the Nov. 16 bond auction, the interest rate reached 40%.

In 1988, government payments on internal debt service alone represented 38.5% of gross domestic product. Authorities estimate that by 1990, internal debt service will represent 32.2% of GDP, under the supposition that Mexico's financial authorities will be able to "induce" lower interest rates.

A blind alley

The Salinas de Gortari government had hoped to use the Brady Plan as its ticket out of the foreign debt-internal debt blind alley, but the past few weeks' experiences have punctured that fantasy. Some sources say that Mr. Brady had promised Mexican officials that the group of U.S. businessmen to which he belongs is prepared to make strong investments in Mexico to alleviate the failure of his plan. But the failure of the creditor banks to come up with offers of new credit to the Mexican government, and the explosive situation of public finances at home, suggest that the Salinas government will make some draconian economic decisions to try to raise government income, given that Brady's promises of foreign investment do not sell on the stock market, and if they should, panic would certainly follow.

Added to the plan's failure are the terrible living conditions of the majority of Mexicans, following the rapid degeneration of their purchasing power. In 1985, the average wage was 70¢ per hour. Today, that abysmally low wage has fallen even lower, to barely 40¢, one of the lowest in the world. At the same time, 40% of the adult population and 80% of Mexico's children suffer malnutrition; of the 2 million Mexicans born yearly, 100,000 will die before reaching five years of age.

Most government officials in Mexico know that if the tenuous social balance is shattered by new economic austerity shocks, the situation will fly out of control. This is the point at which Mexico finds itself today.

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