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Dateline Mexico by Carlos Cota Meza

Brady Plan corpse finally buried

The signing of the much-touted debt renegotiation for Mexico has turned into a non-event.

The upcoming signing of the debt renegotiation agreement, the so-called Brady Plan, so extravagantly trumpeted to the Mexican people on July 23, 1989 by Mexican President Carlos Salinas de Gortari, has become a virtual non-event.

The Feb. 4 signing ceremony in Mexico City, to which Salinas has invited the senior executives of the 15 leading banks in the deal because he "is keen to use the occasion to meet senior bankers in Mexico," according to the London *Financial Times* of Jan. 18, was covered, if at all in the English-speaking press, by tiny stories that looked like obituaries.

Ignoring the signing ceremony, the Jan. 23 *Wall Street Journal* finally admitted what *EIR* readers have known for the past 10 months: that the Brady Plan is dead; in fact, it was never alive. "The Brady debt-reduction strategy, the main U.S. policy effort aimed at that region, is dying," the *Journal* wrote in a story headlined "Brady Strategy: Rest in Peace."

In its March 24 and 31, 1989, issues, *EIR* outlined why Treasury Secretary James Brady's plan to renegotiate Third World debt was stillborn, a fact only now recognized by the *Journal*.

The deal to be signed doesn't save Mexico money, and humiliates the Mexican government. Where Salinas told the nation last July 23 that "we no longer carry the weight of excessive debt" because of the deal, Mexico's debt may even rise above its present level of about $105 billion. Where the deal was supposed to open the door to renewed financing from the international banks for Mexico's economic development, 99% of the banks have indicated they no longer want to lend to Mexico, and are happy to be able to get out of Mexican lending through the present deal.

Under the deal, which applies only to the $48 billion of Mexico's debt that corresponds to the medium- and long-term loans extended by private banks, banks holding 41% of the debt, or $19.7 billion, have chosen to accept replacement government bonds at market interest rates at 65¢ on the dollar, or $13.0 billion, for a $6.7 billion reduction of debt.

However, as part of the deal, the International Monetary Fund, the World Bank, and Japan have lent Mexico $6 billion in new money—to which Mexico had to add $1 billion of its own money—to be used to guarantee principal and interest payments on the new bonds. The principal will be secured by 30-year zero coupon U.S. Treasury bonds to be held in U.S. Treasury vaults.

The second option was chosen by banks holding 49% of the $48 billion total, whereby they will exchange $23.5 billion in loans for an equivalent value of Mexican government bonds, to be serviced at a fixed 6.5% interest rate. The interest will therefore come to $1.5 billion, instead of $2.4 billion.

These two options together might save Mexico as much as $1.5 billion a year in interest payments, out of $10 billion in total interest due. But Mexico's interest due went up by twice that much between 1988 and 1989 when interest rates went up 3 points. And the country's total debt remains unchanged.

The third option, the so-called "new money" alternative, was supposed to have generated substantial amounts of new loans. But banks holding only 10% of the $48 billion, chose this option. The deal obligates these banks to lend $1.2 billion over three years—or $400 million a year—in exchange for which Mexico will continue to service their debts at face value and market interest rates.

Rumor has it that this group of banks—the only ones who still want to be "players" in Mexico—may consist of only *two* banks, one of which, Citibank, the architect and driving force of the debt deal, probably accounts for most of the $4.8 billion.

The *Journal* admitted the strategy was "deeply flawed from the start" because it "primarily addressed the banks' desire to get out of Latin America and other big Third World borrowers, and paid little heed to satisfying those nations' need for international finance.

"The new stress on trying to cut back bank loans has halted what bank lending was previously getting through to Latin America," the *Journal* said. In 1989, there was no flow of commercial bank credit, compared with $6 billion of "new money" lent to Mexico, $5.2 billion to Brazil, and $1.95 billion to Argentina over the three previous years.

The refusal of nearly every bank to lend any more money to Mexico, despite Mexico's best efforts to be a "good boy," is a stunning rebuff for Salinas, who had counted on billions a year in new loans from the banks.

For its deal, Mexico gets a collar around its neck tying it to a leg on the desk of the U.S. Treasury Secretary—bondage based on U.S. government bonds, held in Washington, to "guarantee" Mexico's performance—a rather humiliating spectacle in its own right.

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