Dateline Mexico by Hugo López Ochoa

Shock program takes its murderous toll

Timidly, the government has called for controlling speculative capital, but it continues to support the free market.

'If the world perceives that our country is in shambles, it is mistaken," Mexican President Ernesto Zedillo told *Business Week* magazine at the end of March. From Copenhagen to Jerusalem, from Washington, D.C. to Dallas, Texas, President Zedillo as well as Foreign Secretary José Angel Gurria and Finance Minister Guillermo Ortíz have desperately delivered the same message: The Mexican debt crisis which exploded on Dec. 20, 1994 is in the process of being "reversed."

But reality is otherwise.

Thanks to the approximately $40 billion financial rescue package offered to Mexico, a substantial portion of which came from the United States, at least $14 billion has been paid to holders of short-term treasury notes, *tesobonos* ($16 billion remains to be paid this year), and for the moment the peso has stabilized at about six to the dollar. But the destruction of the physical economy resulting from the International Monetary Fund's shock program has left the country on the brink of social upheaval.

The program's main goal is to achieve a trade surplus in the first six months of the year. This is being done because of the brutal drop in imports which followed the peso devaluation, and because of other measures described below, but not because of any significant increase in exports.

Because there are insufficient foreign reserves in the central bank, the Bank of Mexico, the government has resorted to severe credit restriction as a means of halting the exchange of pesos for dollars. Since December 1994, monetary circulation has fallen by 12.8%; but internal credit of the Bank of Mexico, according to its quarterly report, has plunged by 145%.

The rise in interest rates is the highest since 1987, reaching the astronomical level of 120% before stabilizing at between 90% and 99%. The 50% increase in the Value Added Tax (VAT), from 10% to 15%, led to a 30% fall in retail sales and an 80% drop in industrial sales immediately following its imposition. The Mexican Association of Machinery Distributors reports that sales in this area have dropped to zero for the first quarter of the year.

So far this year, inflation stands at 26.2%, and according to official figures will reach between 42% and 56% for the year. But any citizen who shops at the local market knows that in many cases the rate of inflation has already reached 100%. Add to this the generalized increase of 31% in all public utility rates, and the planned privatization of remaining state-sector companies, excluding—for the moment—the state oil firm, Pemex.

The purchasing power of the minimum wage isn't frozen—it is destroyed. Its value in dollars dropped by 40.1% to become one of the lowest in the world: an average of $2.69 a day. Even the price of the tortilla, a staple of the Mexican diet, rose by 26%.

In the first two months of this year alone, 753,000 workers lost their jobs, according to the government's national statistical agency. This represents 65.5% of the 1,149,100 people laid off in all of 1994. We are talking, then, about a total of 1,902,100 people who don't even work one hour a day. If we consider that 3.5 people depend on each one of those workers, then there are 10.4 million Mexicans who have absolutely no means of supporting themselves, out of a total population of almost 90 million.

Even prior to the release of these figures, the Mexican Workers Confederation (CTM) reported a total of 8 million unemployed, including officially recognized as well as "hidden" unemployed. Numerous other studies report that 44% of all Mexicans live below the poverty line.

The deep economic depression already brought on by the IMF program will cause a drop in the Gross Domestic Product of about 5.1%, according to Banco de Comercio estimates. The Mexican Banking Association reports that loan defaults have increased by 45%, from a value of $5.1 billion in December 1994 to a value of $11.9 billion at present. This means that banks' exposure relative to their loan portfolios has gone well beyond 12%, although in reality, that exposure is now 100%, given the insane increase in interest rates by almost 900%.

Add to all of this, the economic devastation brought about in the state of Chiapas by the actions of the narco-terrorist Zapatista National Liberation Army (EZLN), and a terrible two-year-long drought which has afflicted the central and northern plains states, especially Chihuahua, Durango, Coahuila, and Nuevo León. Six states—Sonora, Chihuahua, Jalisco, Baja California, Quintana Roo, and Chiapas—are on the verge of default.