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Mexico's new pact with IMF shores up foreign reserves with drug dollars

by Carlos Cota Meza

On July 19, Mexico's Finance Ministry and central bank, the Bank of Mexico, signed a new letter of intent with the International Monetary Fund (IMF). With the stroke of a pen, the country's financial authorities thus committed themselves to keeping Mexico submerged in the worst economic depression of its history; to the securitization (sale on the secondary markets) of its non-performing debt; and to bolstering Mexico's foreign reserves with drug dollars, which would pave the way for the possible establishment of a currency board as early as mid-1997.

In the document, only portions of which had been revealed as of Aug. 2, the Mexican government pledges to balance its budget through oil income and through the "underutilization" of public resources. Regarding the government's "debtors support programs," the document states that "their effect on the budget will be absorbed through additional restrictions on spending." The document also forecasts "an additional 21% decline in credit available to the private sector."

The Mexican government's other pledge to the IMF is that by the end of the year, the securitization of the country's non-performing debt will be launched, beginning with the portfolio of bad debt that the Bank Savings Protection Fund (Fobaproa) acquired from the commercial banks, in a lunatic attempt to forestall a series of bankruptcies in the banking sector. To this end, a government agency for asset valuation and sales, the VVA, has been created to take charge of debt "price determination" and marketing.

With this, the main demand of the proto-fascist El Barzón movement is met, as this so-called "debtors' movement" has been promoting a scheme for securitization of arrears, which was prepared by the Wall Street company Security Auction Capital (SAC) and which has been dubbed, "The Concord Trust."

In the wings: a currency board

In accepting the Mexican government's letter of intent, the International Monetary Fund also announced that it would extend for six more months, through Feb. 15, 1997, its participation in the Exchange Stabilization Agreement established in February 1995, through which the Fund had given the Bank of Mexico some $14 billion with which to bolster international reserves that had been depleted in the December 1994 financial crisis. But the IMF also "suggested" to the Mexican government "an aggressive strategy for building international reserves sufficient to cover at least two months' worth of imports."

Immediately, the Finance Ministry announced that the central bank would initiate operations to "increase its international reserves by means of the open market." Such an operation means that the Bank of Mexico would buy dollars from the commercial banks on the last day of each banking month, at an auction price to be determined each month.

At the August auction, the central bank bought $130 million, while the commercial banks—with their excess of foreign exchange—were offering double that. Spokesmen for the private bank Banamex said the central bank was being "very moderate" and urged that the purchase be "at least $300 million." For the September auction, the Bank of Mexico has announced it will be purchasing $200 million.

June import costs were $6.847 billion, and those of July rose to $7.556. For August, and through the end of the year, runaway import costs are anticipated. Thus, the IMF's "suggestion" that Mexico accumulate reserves to cover two months' worth of imports, is equivalent to $14 billion. In light of this, monetary authorities will be increasing—as they have already indicated—the amount of foreign exchange they buy from month to month, creating a dollar "market" not subject to peso appreciation or a "devaluation" of the dollar with regard to the national currency.

And what are these dollars for? According to the IMF's "suggestion," the goal is to accumulate $30 billion (half through this mechanism and the other half through IMF loans), which is designed to immediately provide a safety net against a possible new run against the Mexican peso (as occurred in December 1994), as well as to create an adequate reserve basis for an early switch to a Currency Board with a fixed parity vis-à-vis the dollar.

Over recent weeks, Argentina has also taken steps to shore up its foreign reserves, to face a potential run against its currency. Concretely, the government of President Carlos

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Menem has lined up $3 billion in credit lines, which would be drawn upon in the event of a "crisis of confidence." Even if the fund isn't drawn down, local banks which want access to the safety net will have to pay commissions to foreign banks. Foreign investors are nervous over the volatile state of Argentina's finances, despite the strictures of a modified form of Currency Board already in place.

The Currency Board is the British colonial mechanism, whereby a country surrenders all sovereign control over its internal monetary policy by replacing its central bank with a foreign-run Currency Board, which can only issue local currency if it is backed one-for-one by dollar holdings. This system is widely promoted by the ultra-liberal Mont Pelerin Society as a model for every country in the world.

To accumulate international reserves on the "open market," on the scale suggested by the IMF, the Bank of Mexico would have to purchase $1.3 billion *a month* between August 1996 and July 1997. Salomon Brothers claims that "the Bank of Mexico's decision to buy dollars, means that the Zedillo administration has decided to undertake the recovery of the economy," which in August already meant an average inflow of capital of some $600 million *a week*. So it would appear that foreign capital is raining down on Mexico, but no one is able to explain this phenomenon, which has not been seen since the speculative heyday of the Carlos Salinas de Gortari government. Nor can anyone explain just what this capital will be doing in the destroyed Mexican economy.

Colombian-style 'sinister window'

The model for the Bank of Mexico's decision to "accumulate international reserves" is the Colombian model of laundering drug money through the central bank. Alfonso López Michelsen, President of Colombia from 1974-78, and his Finance Minister Rodrigo Botero Montoya, created the infamous "sinister window" at the Colombian central bank to buy drug dollars, no questions asked. Those who went to the "sinister window" were the Financial Corporations created by the López government itself, which virtually replaced traditional banking practice at the time. These corporations provided the link between the Colombian banking establishment and the parallel underground economy, by attracting drug and contraband money.

From 1975 onward, "narco-dollar" flows into the central bank surpassed those generated by coffee sales, once Colombia's main export product. Fernando Londoño Hoyos, former Colombian president of the Latin American Banking Federation (Feleban), declared in 1987 that if the government truly wants to capture drug traffickers, "they can find them on line at the sinister window."

The same is happening in Mexico. Oil exports for the month of July equalled $892 million, an income $79 million less than that reported for the month of June. If the IMF's "suggestion" is to be met, the Bank of Mexico's monthly purchases of foreign exchange on the "open market" will need to be higher than oil exports. For the moment, the August auction purchase of $130 million surpassed mining exports, which equalled $32 million in July. The planned auction purchase for September, of $200 million, will be higher than agricultural exports of $190 million in the month of July.

So that there can be no doubt as to what is really going on, Pedro Zamora, vice president of the National Banking and Stock Commission (CNBV) said on Aug. 27 that the money-laundering operations that have occurred through the national financial system "are isolated cases. Fortunately, I can say with certainty that on a general level, the financial system has not been affected by money laundering."

Last gasp

What any sensible person is asking himself is: Who is providing the dollars to the commercial banks, which are then sold to the Bank of Mexico? Although no one dares to conclude that this is one vast money-laundering deal, no one believes either that international investors are giving Ernesto Zedillo the same generous treatment they gave Carlos Salinas.

The banks are bankrupt. At the close of the first semester of 1996, non-performing debt rose to 162 billion pesos, of which Fobaproa has acquired 64 billion from the non-intervened commercial banks; 53 billion pesos from 10 intervened banks, and another 45 billion pesos of overdue credit on the bank's accounting registers. Eleven non-intervened banks are in a precarious situation, and the bankruptcy of several of these is expected when the deadlines established by Fobaproa for the purchase of non-performing debt are reached.

In fact, the entire country is totally insolvent, and existing on artificial life support through the emission of bonds that the government is selling abroad. Payments on foreign debt for the second half of 1996 add up to $10.92 billion, and 36.6% of that corresponds to payment on bonds placed in 1995. Twenty-nine percent of annual oil revenues is being held in a special escrow account at the U.S. Federal Reserve Bank in New York, which is being used as collateral for the bonds.

According to the Finance Ministry, the foreign debt payments due between 1997 and the year 2000 equal $98.172 billion, which, if you take away prepayments and re-programmings, represents minimum annual payments of $18 billion.

There is no way the Mexican economy can meet such payments. To this undeniable truth, must be added the fact that the International Monetary Fund and its Mexican agents have already begun to take steps toward establishing a Currency Board, and are desperately trying to rake in money of all sorts (including drug money) to maintain the appearance of a solvent financial system, and of Mexico as a solvent debtor.