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EIR Economics

Oil price collapse puts Mexico in existential crisis

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Mexico's budget plan for 1999, which was presented to the nation's Congress last November in accordance with the law, confirms in spades that Mexico is rapidly moving toward a crisis similar to that of 1994-95, despite the 1996 financial bailout which was, at the time, considered the largest in the world.

As is typically the case, specialized publications around the world have failed to report what is actually at stake. Instead, Wall Street propaganda has insisted that the most important thing for Mexico was the "approval of Fobaproa," the bank rescue package which is costing the public treasury more than $60 billion.

As a result of the recent combined vote of federal deputies from the Institutional Revolutionary Party (PRI) and the National Action Party (PAN), Fobaproa (the Bank Fund for Savings Protection) is now officially part of the government's 1999 public debt. Since 1995, the Bank of Mexico has been using this fund to "capitalize" all Mexican commercial banks which had gone bankrupt in the 1994 payments crisis, by buying up their huge portfolios of non-performing loans. Notwithstanding the gleeful cackling of the international banks, the "approval of Fobaproa" resolves nothing with regard to the Mexican banking system—although it does impose yet another burden of public debt upon the Mexican people.

The transfer of private bank debt to the public treasury has been accompanied by another program, "support for debtors" with non-performing loans. This new program, entitled "End Point," will be in effect from January to September of 1999 and, according to official information, will entail rescheduling "loans contracted before July 30, 1996." This means that it is going to reschedule the very unpaid loans that were supposedly restructured through Fobaproa!

As some bankers have already warned, a new bank rescue package "will become necessary" when the "End Point" program concludes in September 1999, and the actual amount of non-performing loans accumulated since July 1996 becomes known. Fobaproa was involved in dealing with the mass of non-performing loans which accumulated during the six-year term of Carlos Salinas de Gortari (1988-94), and which blew up in December 1994. But it appears that, despite the Fobaproa rescue, the banking system has already gone bankrupt—a second time.

Oil chaos

But this bankruptcy will be worse than the first, because, when the banking system actually blows, the Mexican economy will find itself in a much worse crisis because of the ravages already caused by the collapse in the international price of oil.

At the time of this writing, the United States government has already bombed Iraq, and not even this has caused oil prices to rebound. Throughout 1998, Mexico has sold its oil at half of what it was worth in 1997.

Given that Mexico is an oil-producing country, despite some claims to the contrary, the fall in the price of crude has caused 1) a destabilization of its balance of payments (in other words, the danger of default on its foreign debt); 2) a gigantic deficit in its balance of trade, which presages an "abrupt devaluation" of the peso; and 3) a budget deficit which has placed

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President Ernesto Zedillo's government at risk of political disintegration, since the oil industry provides up to 40% of the government's tax revenues.

This extremely serious economic situation has been aired in House discussions on the 1999 federal budget, although the congressmen may not have been aware of the fact.

In November 1998, the Executive sent its 1999 budget for income and expenditures to Congress for review and approval. By itself, the government plan, with its drastic cutbacks in expenditure and investment, was criminal. But not a week has passed that the Executive has not called on congressmen to approve yet another, more austere version of the plan, because of the continuing decline in international oil prices.

It is interesting to analyze what the Zedillo government's vision of the future was, a future which is now out of the question. The General Criteria of Economic Policy for 1998, which was officially prepared by the Finance Minister, establishes guidelines "for the purpose of facilitating examination" of the budget plan by the Congress. The Finance Minister informs Congress that what it seeks for the coming year is "to protect to the maximum, levels of growth and employment, without causing future vulnerabilities, and to guarantee an ordered transition to the next administration." This government statement of intent is sustained by the mistaken axiom that "the Mexican economy succeeded in overcoming the 1994-95 crisis."

This supposed success by the federal government was due to a "relatively favorable international situation" which, unfortunately, changed "drastically" as of late 1997, with events—according to the ministry—that no one could have anticipated for their "intensity and virulence with the financial instability [that] would extend to the world's principal financial markets during 1998."

The government thus recognizes that this financial crisis produced a "severe restriction of foreign resources for the totality of emerging economies, among them Mexico; and the severe fall in the price of oil."

Kill people, but keep paying

What the Finance Ministry does not report, is that, throughout 1998, the government was on the verge of falling into insolvency with its foreign creditors. The way in which the ministry chooses to inform Congress is that the fall in oil prices is "36% with respect to 1997, representing a more than 1% decline of the GNP in public income." The government's fiscal policy "responded through three adjustments to government spending," which prevented the budget deficit from increasing.

Trying to clarify this confusion, we turn again to the General Criteria of Economic Policy for 1998. Remember that these "criteria" were established by Guillermo Ortiz Martínez, who served as Finance Minister before he was installed as Governor of the Bank of Mexico.

In November 1997, the Finance Ministry told Congress: "For 1998, the public sector has allocated payments on the foreign public debt in the amount of $11.7 billion. Of that amount . . . $4.479 billion correspond to overdue payments that must be refinanced." Budget cutbacks imposed by Miguel Angel Gurría, who replaced Ortiz Martínez as Finance Minister on Jan. 1, 1998, are, not surprisingly, similar to the amount that was to have been refinanced, but which was not because of "financial instability."

When President Zedillo said, before the financial crisis hit, that he had "taken the bull by the horns," he was only referring to the fact that Mexico has not yet fallen into default with its international creditors, and that everyone should be proud of this. Things, however, are not that simple.

When Guillermo Ortiz Martínez presented his General Criteria of Economic Policy for 1998 in November 1997, he told federal deputies that "the current consensus among the principal analysts of the international economy are that: 1) the economies of our main trading partners, and particularly that of the United States, will continue to grow; and that 2) conditions of liquidity on the international financial markets will not be significantly affected."

Therefore, said Ortiz Martínez, "with regard to the foreign debt, we will continue to carry out refinancing operations that will permit us to improve the current conditions for [debt] contraction, while at the same time encouraging diversification of the markets . . . for future [debt] issuance, both of the public and the private sectors."

Further, in the 1998 Budget of Income and Expenditures, modified just one month after its approval, the federal government had established that "public finances would contribute to economic growth," through the following actions: "In hydrocarbons, a growth in total investment of 59.7% in real terms is contemplated. . . ; In electricity, growth in total investment of 50.6% in real terms is proposed. . . ; In hydraulic infrastructure, it is hoped that strong encouragement can be given to projects that increase coverage of potable water and sewage services. . . ; In communications and transportation infrastructure, an investment growth of 18.4% in real terms is proposed."

We may assume that new oil infrastructure, new thermoelectric plants, and new hydraulic, communications and transportation infrastructure are real necessities of the Mexican physical economy, at any time. However, none of this was carried out in 1998 because of drastic budget cutbacks to pay the foreign debt.

Regarding the private sector, the 1998 "Criteria" takes as its driving force "investment in internationally viable sectors (exports)." The 1997 trade balance, clearly in deficit, is nonetheless presented as the unmistakable sign that the Mexican economy has overcome the 1994-95 debacle (see table).

Trade balance, 1997
(millions of $)

Exports	
Oil	11,323
Non-oil	
Agriculture	3,823
Extractive	478
Manufacturing	49,636
Total exports excluding maquiladoras	65,265
Imports	
Consumer goods	9,326
Intermediate goods	49,034
Capital goods	15,116
Total imports excluding maquiladoras	73,476
Trade balance excluding maquiladoras	–8,211
Maquiladoras	
Exports	45,166
Imports	36,332
Balance	8,834

Source: Banco de México.

In 1997, excluding the maquiladoras—the free-trade spawned cheap-labor plants on the Mexican-U.S. border—the trade balance deficit was $8.211 billion, due to an increase over 1996 of 28.6%, 15.5%, and 27.7% respectively, for each of the categories in which imports are considered. If one includes the maquiladoras, one can just barely produce a "surplus" of $623 million.

For 1998, the trade balance deficit in the first 10 months of the year was officially $5.978 billion. The exporters association, Anierm, estimates that the annual trade deficit will end up between $6.5 and $7.3 billion, including the maquiladoras!

With the fall in the oil price, which in 1999 will represent an accumulated loss of $7.3 billion, not counting the "deceleration" of non-oil imports because of the undeniable economic recession of its trade partners, Mexico will have no ability to continue participating in the "globalized markets." Plain and simple, the model of "economic opening" has come to an end.

1999 budget: a poorly embalmed corpse

The Zedillo government ended 1998 without being able to positively muster a single element of "globalism" in its favor. Without these elements which come from abroad, Mexico's rulers have realized that they never had their own ideas.

For 1999, the federal government is now sadly admitting that the only way the budget can be financed is through "foreign financing" or through "a budget deficit." And since it cannot rely on either option (there is no foreign financing, because of the financial crisis, and deliberately incurring a deficit is considered a sin against neo-liberalism), Mexico hopes to stay in "equilibrium" with "our own resources," thereby prostrating the national economy.

In the first budget plan sent to Congress, the Finance Ministry stated that programmable expenditures by the federal government "are at their lowest level of the past two decades." To reduce the level of spending even further, insists the ministry, "would endanger the provision of goods and services, which are the responsibility of the public sector."

Despite this statement, the Executive is calling on the House of Deputies to approve a new budget "adjustment," because of the free fall that oil prices are registering on the international markets. By definition, the federal government cannot meet what it itself calls "great national priorities."

At the same time, in order to maintain some kind of "equilibrium," they are proposing a policy of taxation which would reach "the highest percentage of the GNP in the last four years." The means of achieving this, states the federal government, is by establishing a "special tax on telephone service," as well as "an adjustment on the price of gasoline and diesel."

The 1999 "Criteria" implicitly recognize that all of the government programs undertaken in the past four years, have reduced the national tax base. The Finance Ministry states that in the past seven or eight years, "collection of tax revenues" has fallen by 14%, "going from 10.17% of GNP, to 8.71%."

These same programs, in turn, have taken a growing fiscal bite, causing the budget deficit or "disequilibrium." Such is the case, for example, with the so-called "social security reform" that handed workers' pension funds over to the manipulations of a corrupt banking system and which has cost the budget the equivalent of 1.5% of the GNP. Another is the controversial "financial restoration program" of the banking system, better known as Fobaproa, whose cost through February 1998 totalled $65 billion, equivalent to 14.5% of the GNP.

If it continues down the present path, President Zedillo's government simply has no future. The 1998 federal budget lasted a scant month, while the 1999 budget was stillborn. One by one, Dr. Zedillo's economic theories have proven to be utter failures.

The moment has come for President Ernesto Zedillo to radically change those economic axioms upon which he has operated throughout his professional life. His government is not facing a technical budgetary problem, but the serious danger of disintegration in the face of a total incapacity to confront the economic crisis. President Zedillo must tell the truth to the Mexican people: that during the last 16 years of IMF dictatorship, the country has had no economic growth.