Dateline Mexico by Carlos Cota Meza

Will there be a devaluation?

A crisis in the balance of trade and domestic depression threatens to force a devaluation of the peso.

The London *Financial Times* has repeatedly devoted analyses to the argument that the clouds of devaluation are descending on Mexico.

The newspaper asserts, and it is true, that the rise in domestic interest rates are merely "payment" to avoid a currency devaluation. But at the same time, and this the daily doesn't say, this policy is severely affecting national companies which are shutting their doors in growing numbers due to exhaustion of fixed capital (what Mexican businessmen call *cannibalization* of their plant and equipment). This phenomenon is at the same time causing an increase in imports of intermediate goods for those companies which are still operating (those primarily oriented toward exports), given the disappearance of national suppliers.

But the "payment" to avoid devaluation has now reached its limit. Faced with a huge trade and current accounts deficit, Mexico's finance department was recently forced to report that "the federal government will be making an extraordinary effort" to maintain a positive differential in 1993 between Mexican interest rates and those of the United States, as a means of obtaining capital.

The current accounts deficit for 1993 is estimated at $20 billion, for which reason the government calculates that at least $15 billion in foreign capital will be required, along with the $5 billion anticipated from the privatization of 37 state companies.

Private sector think-tanks estimate, however, that Mexico will only capture some 25% of the foreign capital expected. They further assert that the scheme of capturing resources through an increase in domestic interest rate yields is distorting the national money market. Also, according to the National Construction Council, national industrial plant is suffocating. The council's economic studies department claims that of 18 economic sectors where "productivity programs" will be applied, 13 will have difficulty reaching the levels of supply they had in 1980.

The explanation for this can be found in the following. Privatization of public companies (such as the steel sector or Fertilizantes Mexicanos, for example) which previously were major consumers of nationally generated goods and services, are today supplying themselves through imports. Similarly, Pemex has adopted a scheme for obtaining foreign credits to finance its imports, while the Federal Electricity Commission is intensifying its turnkey programs, which imply total installation of plants from abroad, including maintenance and renewal of plant and equipment.

This policy is what explains the dramatic increase in imports without there being an accompanying economic expansion internally or increase in exports. During 1992, imports totaled $48.138 billion, signifying an annual increase of 34.4% in consumer goods, a 35.9% increase in capital goods, and a 20.7% increase in intermediate goods. However, these grew less in volume than in value, since public sector and privatized companies have become a virtual captive market for foreign suppliers. Exports grew by only 7% that year.

Other reasons for the suffocation of the domestic economy include the "loss of buying power" (a 25% decline from 1989 to 1992) and "the cost of credit," which will continue to rise because of the way in which the federal government is planning to pay its foreign debt.

The situation can also be measured by the desperation with which certain companies are trying to place new debt bonds on the international markets (Kimberly-Clark, Cementos Mexicanos, Teléfonos de México, among others), and by the definitive bankruptcy of the airline Mexicana de Aviación, which was unable to pay its debts and for its acquisitions and investments.

The government well knows that it will not get the foreign capital it needs, since it will not be able to maintain domestic interest rates at a high enough level to attract that capital. Thus, it will be forced to use its international reserves (currently at around $19 billion) to pay the foreign debt. To the extent that it does so, the Mexican "miracle" will end, and we will see a return to the traditional form of looting: devaluation of the peso to pay the debt.

The *Financial Times* referred to this when it stated that the devaluation is more a political question than an economic one. "Politically, this would be a disaster; each Mexican devaluation has been accompanied by the resignation of the finance secretary and of the central bank director."

And therein lies the whole story. Finance Secretary Pedro Aspe clearly prefers to destroy the national economy than to lose his chance at the PRI (ruling party) presidential nomination.