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Dateline Mexico by Carlos Cota Meza

The secret is out

A flurry of emergency measures cannot hide the truth: that the Salinas "economic miracle" is terminally ill.

April 20 was the day on which the so-called Salinas economic model entered a deep coma. At the same time, the beneficiaries of this model went from a state of mere idiocy induced by the constant rise and fall of the stock markets, to outright catatonia, as they began to realize that they are experiencing the final days of an economic model gangrenous in all its vital organs.

Few are the analysts and experts who have not been hypnotized by the ups and downs of the stock exchange or who have been able to forecast the true magnitude of the problem. There are 200 issuing companies on the Mexican Stock Exchange (BMV), and they have registered cumulative losses of $23 billion in the period from Jan. 1 through April 20 of this year.

The outstanding share value of the stock exchange at the close of 1993 was $200.6 billion. By April 20, this had fallen to $166.4 billion, roughly a 16% drop, or approximately an $8 billion drop per month. Fifty of the companies were suspended from market operations several times, and it is widely suspected that they are already bankrupt.

By April 20 (when the market had already completed 75 trading days, with 39 of those closing down and 36 closing up), the Mexican exchange went into "free fall," which was only halted by the political machinations of Finance Secretary Pedro Aspe, and by the government's decision to have NAFIN, its development bank, buy up everything on the decline; there was, in addition, the commitment of the financial groups to buy up shares of Teléfonos de México, which had lost $2.50 per share on Wall Street.

However, depreciation of the market is one thing; flight out of the market altogether is quite another. According to some businessmen, flight capital during the period from March 24 through April 20 was $6 billion, while the Mexican Association of Exchange Houses claims that flight capital has already reached $12 billion.

Without having the precise figure in hand, one can nonetheless assume that it is high, and that it can be measured by the sudden increase in interest rates. On April 20, interest rates on 28-day treasury certificates (Cetes) were hiked by more than three percentage points to 18.0%, a rise of 104% since Feb. 24, when rates were 8.8%.

The government doesn't deny it. It tried to stop the capital flight and tried to avoid an abrupt devaluation of the peso, which so far this year has depreciated by 8.5%, and would have registered a 25-30% devaluation had it not been for the intervention of the central bank.

And yet, since April 20, every government action to try to stave off disaster has only served to bare the fact that every aspect of the "Salinas economic model" is rotten.

The accumulated devaluation of 8.5% (described by Secretary Aspe as "modest") has posed serious problems for companies with high rates of foreign indebtedness, which in the short term is estimated at $15 billion. The sudden increase in interest rates (described by Secretary Aspe as "temporary") has forced the banks to eliminate their fixed-rate loan portfolios. This has sown panic in the economy by reviving the severe problem of overdue agricultural, industrial, commercial, and consumer (credit card) debt.

The interest rate hike has also aggravated the problem of the government's internal debt, to the degree that it is now said that the government's entire budget deficit will be due to domestic interest payments (presuming, of course, that there will be no other deficits in the government's finances this year).

The most recent emergency action undertaken is the creation of the trilateral Monetary Fund put together by the three members of the North American Free Trade Agreement (United States, Canada, and Mexico), to the tune of $8.73 billion. That fund is supposedly designed "to guarantee the exchange stability" of the three member nations. (Mexico can draw on 76% of it, or $6.73 billion.) What is not clear is if this amount is the same that President Clinton offered Mexico on March 24 following the assassination of presidential candidate Luis Donaldo Colosio, or if it is part of the credit line that Mexico has with the U.S. Federal Reserve Bank, which, according to Fed chairman Alan Greenspan, equals $15.625 billion, of which $9.625 has already been drawn.

In any case, what this Monetary Fund does not resolve is the effect on Mexico of the latest U.S. interest rate hike decreed by the Federal Reserve. Is the fund intended to compensate Mexico for the U.S. interest rate hikes? Is the fund intended to put back into Mexico the flight capital of the past three or four weeks?

In trying to answer these questions, one may well discover more noxious effects of that corpse once upon a time known as the "Salinas economic miracle."

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