Mexico on the verge of a new devaluation

by Carlos Cota Meza

The Sanders Amendment, approved a few weeks ago by the U.S. House of Representatives, seeks to bar the U.S. Executive from using its Exchange Stabilization Fund to support foreign currencies, as President Clinton did with Mexico some months back. It is unlikely that the Senate will also pass the amendment; hence its impact will be more political than legislative. This is also the way it was perceived in Mexico—as part of the political warfare between Democrats and Republicans, with the latter trying to defeat Clinton in his bid for reelection in 1996.

However, Mexico's finance secretary took the occasion to try to assure the country's international creditors that everything is fine and dandy in Mexico and that "the international reserves had mounted to $13.649 billion by July 14." The dollar-denominated treasury bond ("tesobono") debt, the official news bulletin went on, which had been $29 billion in January 1994, is now $7.783 billion, besides which "no financing is required" for the current account because, among other reasons, Mexico has started to generate a trade surplus, which amounted to some $2.9 billion in the first six months of 1995.

The finance secretary is covering up reality, of course. The "tesobono" debt, which he presented as a total, is in fact only for the months of July and August. What would remain outstanding are the last four months' payments, another $4.7 billion, which the secretary absurdly described as "a problem we are already past." The reality is that, taken as a whole, the international financial package and the "adjustment package" which the Zedillo government has applied since January to deal with the financial insolvency in which former President Carlos Salinas left Mexico, are in very shaky shape.

As the deadline on the remainder of the $29 billion in tesobono payments approaches, signs are starting to appear of the real problems which the Zedillo government will confront when the Clinton rescue package, which has artificially kept national finances afloat, disappears.

Since the outset of 1995, it has been known that July and August would be the "critical conjuncture" for the treasury bonds, since it would then be necessary to pay off $7.8 billion, after having liquidated $16.7 billion in the previous six months. For the remaining four months of the year, $4.7 billion will have to be liquidated. A mere trifle!

But that is not all. The $20 billion Clinton rescue package (of which $7.5 billion has yet to be disbursed) is part of a $49.25 billion international financial support package for Mexico, out of which $17.75 billion is promised by the International Monetary Fund, of which $9.725 billion has been disbursed. The Canadian government is supposed to contribute $1.5 billion, and they have disbursed $750 million. The Bank for International Settlements (BIS) had promised $10 billion, but not one dollar of that money has arrived in Mexico.

Of the international rescue package, $26.275 billion remains to be disbursed to Mexico, as the table shows, and it is still not known what will happen with the missing portions from the IMF, Canada, and BIS.

In reality, the Sanders Amendment—quite apart from the quarrel between the Republicans and Clinton—is the harbinger of a new IMF policy toward all debtor countries: force them to pay the foreign debt "with their own resources." This is the policy which was forced on Weimar Germany (1923-29), when they were forced to pay the World War I victors "war reparations" out of their own resources—which produced the worst hyperinflationary crisis in memory.

In Mexico's case, the fact is that even if everything promised in the Clinton package should be disbursed, Mexico will have to lay hands on even *more* resources—which necessarily will have to be "internal," (i.e., reduce domestic consumption even more), to comply with all of its international capital account obligations in the rest of this year. In the first half of 1995, the International Monetary Fund disbursed $23 billion, of which some $8 billion went to build up international reserves from $5.6 billion in January to $13.6 billion in July, and another $15 billion contributed to pay off the $16.7 billion in "tesobonos" which came due during that semester. All indications are that almost nothing has been paid of the other existing capital account obligations. Hence, for the second half of the year, we estimate that Mexico will have to pay more or less the following: $12.5 billion in "tesobonos," $20 billion in foreign debt of the banks, $15 billion in foreign debt of private business, and $3 billion in payments on public debt, for a total of $50.5 billion.

To deal with this, the available money is the $13.6 billion in reserves, plus the $26.3 billion of the "package" which

International financial support to Mexico
(millions of dollars)

	Allocated	Disbursed	To be disbursed
U.S.	20,000	2,500	7,500
IMF	17,500	9,725	8,025
Canada	1,500	750	750
BIS	10,000	0	10,000
Total	49,250	2,975	26,275

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has not yet been disbursed, which adds up to about $40 billion. As is obvious, more than $10 billion is still short—a fact which *EIR* has been pointing out since last February.

The speculative Wall Street and Chicago banking houses are already working on a program to direct Mexico's "own resources." For the "experts on emerging markets" of Bankers Trust Securities, Global Emerging Markets Advisors, Bear Sterns, Salomon Brothers, Nomura, etc., the Clinton package has sparked "a new overvaluation of the peso." In a suspiciously similar analysis which appeared in all the national dailies at once, these houses claim that "many suspect that what the [Mexican] government is doing is maintaining a solid peso during the present heavy period of 'tesobono' maturities." What is next, they say, is "the effect of weakening the peso."

According to this, the exchange rate by the end of the year ought to be between 6.85 and 7.25 pesos per dollar—which means an additional devaluation of 13-17%—since "6 pesos to the dollar is not an adequate devaluation" to "increase international reserves" and to assure "an export economy."

But beyond these "experts," are the perverse games being played by the autonomous Miguel Mancera, governor of the Bank of Mexico, who has already restarted his speculative practices with the tatters of the national economy (its "own resources").

All through July, the Bank of Mexico offered to pay "tesobonos" in advance of their maturity. The National Finance Company, Nafin, has acted the same way, offering to pay these same securities with an exchange rate outside the so-called spot (48-hour) market price. The official explanation is that "we are trying to eliminate the demand pressure on the currency market on pre-established days" (the calendar of liquidation of "tesobonos").

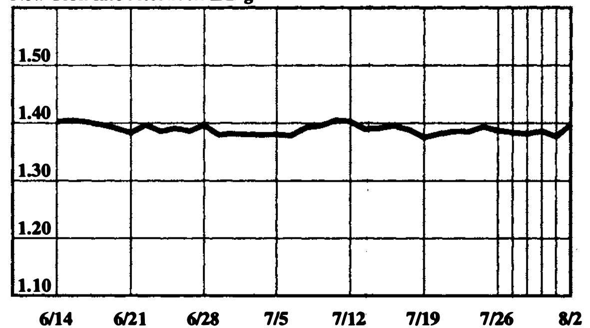
Due to the "excessive presence" of dollars in the market, as the result of these movements, the national currency stood in mid-July below 6 pesos to the dollar (at 5.95 pesos to the dollar, it was said that "the dollar got cheap again"). This caused a major stampede of capital out of the country, which in one day pushed the exchange rate back up to 6.20 pesos. In a matter of hours the Bank of Mexico threw in $400 million to supply the strong demand of fleeing "investors."

For their part, the secondary markets suffered a sudden setback in their "corporate demand," which forced interest rate increases in all the instruments being bought and sold, especially government securities. The Bank of Mexico contributed, via "credit auctions," an equivalent in pesos to $808 million to lessen the "liquidity crunch" of the operators on that market.

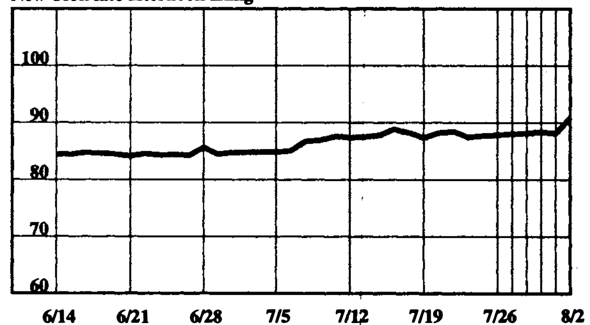
What happened between July 19 and 20 in the Mexican financial markets was the first tremor, a warning of what will happen as the Clinton rescue package is running out, and as Mexico goes on trying to pay off the speculators with its own resources.

Currency Rates

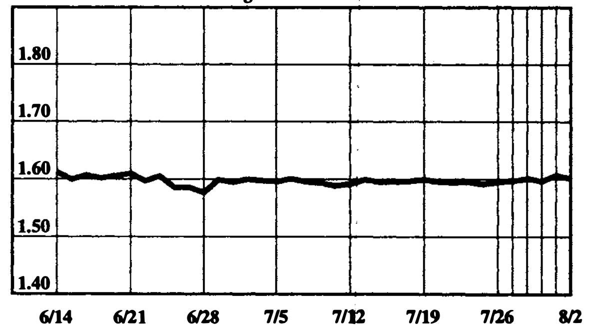
The dollar in deutschemarks



The dollar in yen



The British pound in dollars



The dollar in Swiss francs