Mexico's economic 'balancing act'

by Elsa Ennis

A Few days after taking power Dec. 1, Mexican President Miguel de la Madrid sent the National Congress a 7 trillion peso 1983 government budget proposal. One of the main objectives of the budget, a preamble to the proposal said, is "to diminish support for the industrial sector."

The budget indeed tries to accomplish that. Of the 7 trillion pesos total, 2.8 trillion will go to domestic and foreign debt payments, a whopping 100 percent increase over last year's debt service. (The official exchange rate is 707 pesos to the dollar, although the dollar has been trading for 120-150 pesos in the black market.)

Even financial outlets for the International Monetary Fund and other proponents of monetarism have expressed shock over the new Mexican government's promise to direct 10 percent of next year's gross domestic product to debt servicing alone.

These figures contrast with the sluggish 1.9 trillion pesos (a 29 percent increase over this year's budget) in the midst of a 100 percent inflation rate, allocated for the state-owned companies. Through their monopoly over oil, steel, and other strategic sectors, these companies have long been the engine of the Mexican economy.

The PIRE

The goal of "cleaning up the country's finances," has been the rationale behind the budget and a flurry of other economic measures packaged by the government as "Immediate Program for Economic Reordering" (known as PIRE, its Spanish acronym).

The program is basically aimed at meeting a series of austerity demands stipulated by the International Monetary Fund in a letter of intent signed last month. The accord, which would give Mexico a $3.8 billion credit over three years, calls for reducing the budget deficit from 17 to 8.5 as a percentage of the domestic gross product.

Members of the "economic cabinet" including Secretary of Finances Jesus Silva Herzog, Secretary of Planning and Budget Carlos Salinas de Gortari, and Banco de Mexico head Miguel Mancera, have gone to the Congress and the press to report on the PIRE's details.

On Dec. 11, Secretary Silva presented congressmen with a carefully balanced foreign-exchange income and expenditures plan. In 1983, he said, Mexico expects to get $25 billion in foreign revenues, $20 billion of which will come from exports, tourism services, and commercial operations on the U.S. border. The other $5 billion will come in the form of foreign "fresh loans."

According to the Finance Minister's bookkeeping calculations, the government will keep tight control over this $25 billion to then ship them out again from the country. Fourteen billion will pay for interest on foreign public and private debt and 11 billion for essential goods and service imports. A large portion of this latter allocation will pay for the 10 million tons of grain Mexico is expected to buy abroad next year. The figure marks a drastic cut-back from the $24 billion import total of 1981 and $18 billion of 1982, with capital goods and other industrial goods expected to be most affected.

Even with these cutbacks, it will be difficult to meet this balance, given Mexico's heavy dependency on oil exports to get foreign exchange. Mexican and foreign sources point to the fact that a further drop in international oil prices could blow apart the income-expenditures balance and the complicated negotiations with Mexico's international creditors.

Service of the principal on foreign debt is not included in the balance, because Mexico simply can't pay it and has de facto declared it in moratorium. Silva Herzog has requested the country's 1,400 or so foreign creditors to reschedule principal payments falling due from Aug. 23, 1982 to Dec. 31, 1984, calculated to total 10 billion dollars.

Nor is there an arrangement yet in place for Mexico to be able to repay its private-sector foreign debt. The managing director of the International Monetary Fund, Jacques de Laroisière, has been threatening banks that he won't give the green light to the IMF Mexican loan until they agree to such a rescheduling and extend a $5 billion "fresh loan" to cover Mexico's financial needs next year. As of this writing, the word is that bankers have consented.

In tune with the IMF demands, the government has also announced a dual exchange system for the peso. On Dec. 10, Banco de Mexico head Miguel Mancera told the press that a controlled rate (expected to be set on Dec. 20 at 70 pesos to the dollar) will be used for essential imports, payment of foreign debts, and expenditures by assembly plants on the border, as well as by Mexican officials in the foreign service and for a few other operations. A "free-market" rate will be used for any other transactions.

The "freedom" of this rate is nonetheless highly questionable. Since the government expects to keep tight control over its $25 billion foreign-exchange income budget, the free-market rate will affect the relatively few dollars which will come to the country through other channels.

Mancera further said that actual dollar bills would be delivered only at border exchange houses and airport booths. Banks in other parts of the country, however, will deliver only dollar-denominated travelers checks, money orders, and other such documents.

Other measures to attract revenues include a peso futures market to be opened soon and a drastic increase in interest rates on bank deposits, coinciding with stratospheric interest rates on loans. Like U.S. Federal Reserve Chairman Paul Volcker, the PIRE authors argue that such hikes will "discourage excessive lending and financial populism." The same ministers have avoided congressmen's questions as to the inflationary effects high interest rates will have on the budget and the economy in general.

The "economic cabinet" also expects to build up the treasury through a fiscal reform which will increase sale taxes on all consumer goods, especially luxury items. There is a 10 percent income tax increase for high-salary brackets, including public officials. Charges for state-controlled goods and services such as trains, buses, the Mexico City subway, gasoline, and other oil products have also been raised.

The political background

Although the main components of the Mexican political system, including politicians and congressmen from the ruling PRI party, labor and peasant leaders, and pro-government journalists, have, as tradition demands, given the new President a chance to establish himself as chief of the powerful executive power, signs of protests against the PIRE's austerity demands are already showing up.

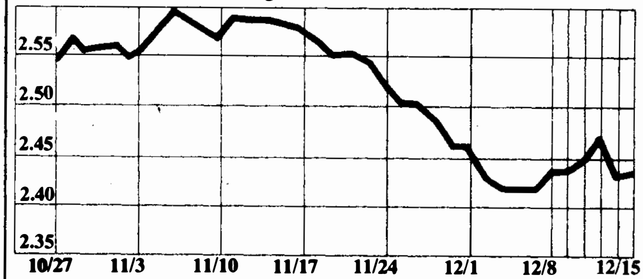
Leaders of the Congreso del Trabajo labor umbrella group Dec. 9 called on their millions of workers base to strengthen the presidential-labor alliance which has secured Mexico's stability for the last 50 years. They nonetheless appointed a commission to study each of the PIRE demands in detail. On Dec. 14, after a meeting with labor-backed congressmen, the head of the Mexican Workers Confederation (CTM) and key figure in the Congreso del Trabajo, Fidel Velázquez, called the press to state that workers will oppose any tax on basic goods and services such as water, medicine, transportation, education, and others.

PRI and left-wing congressmen have also incisively questioned the "economic cabinet" over the social consequences the demands for austerity will have. PRI congressman Oscar Cantón Zetina won front-page headlines Dec. 13 when he asked Planning and Budget Secretary Salinas de Gortari whether he had contingency plans to "respond to the protest demonstrations which will arise." Salinas also had to explain that the PIRE is not a Chilean-style "shock treatment," as some congressmen and journalists have said, because "it protects the lower-income strata."

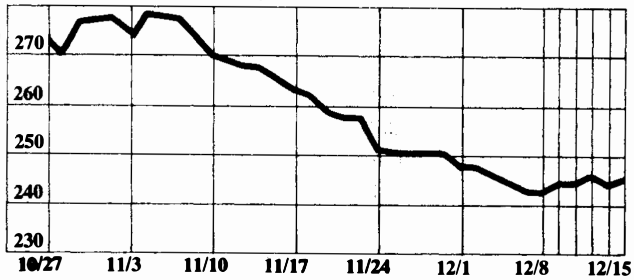
Despite the publicity which has surrounded the economic announcements, there is a sense throughout the country that the measures cannot really be applied. Mexican sources have told this news service that if the country has not seen more protests, it is only because political forces are now "in a sort of year-end truce." They emphasize that "in the first months of the year you may be seeing a million and a half workers opposing the government."

Currency Rates

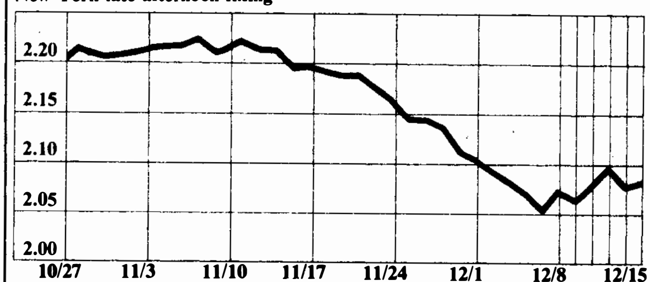
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing