 by Carlos Valdez

On the verge of 'Argentinization'?

The Salinas regime faces capital flight, impending new devaluation as bankers scoff at debt reduction demands.

Events since Carlos Salinas de Gortari assumed the Mexican presidency barely six months ago confirm that the looting of the nation under his predecessor Miguel de la Madrid has not only *not* stopped, but has been dramatically sped up. Mexico is now closer than ever to the desperate straits already experienced by Argentina, Brazil, and Venezuela. Yet Mexico's creditors are demanding another show of abject submission from President Salinas: a drastic devaluation of the peso.

On May 31, the deadline by which—according to constitutional mandate—President Salinas had to present his National Development Plan (PND), it was revealed that the sole premise of the plan was a favorable renegotiation of Mexico's foreign debt. Salinas announced that a goal of the PND was the achievement of a 6% annual growth rate—*by the end of his six-year term*. He also pledged to reduce the net transfer of resources from 6.1% of GNP to 1.5%; "gradual" recovery of employment; raising of living standards, etc.

All of this to be achieved by exerting "iron discipline" over finances through the same "solidarity pact" imposed by De la Madrid in December 1987.

Salinas's PND appears still-born indeed. Government officials consulted on its viability have admitted that for it to work, $61.5 billion in capital would be needed during the course of Salinas's presidential term. "In case that amount were not obtainable, the [PND's] objectives would be hard to fulfill."

One banker consulted in Madrid during the World Monetary Conference which began June 6 stated that Mexicans "are dreaming if they believe that the private banks are going to agree to their demands to the sale of the debt at a 50% discount on the secondary money markets." The banker, who refused to be identified, told reporters that "I think it would be good for us if there were a crisis in the Mexican debt negotiation." The Mexican news agency Notimex commented that such a crisis would oblige the U.S. to guarantee the Mexican debt, precisely what the bankers want.

Far from inspiring creditor confidence, the Salinas PND has instead served as a trigger for capital flight which has consumed more than $11 billion worth of Bank of Mexico reserves. Salinas had not even finished his PND broadcast when the Bank of Mexico had to face a speculative onslaught by former bankers who now own Mexico's brokerage firms. Those ex-bankers appeared at the government's regular auction of Cetes (the government's primary internal debt instrument) demanding interest rates of 65%, while the Salinas strategy has been to bring interest rates under the 20% level.

Buyers for these bankers were very clear in describing the situation: "The clients . . . demand increasingly higher rewards for keeping their savings in pesos. . . . Among the stock exchanges there is the impression that interest rates . . . cannot be reduced *until a deal with the creditors is struck*." Indeed, as Citibank's John Reed, president of the creditors' steering committee on Mexico, declared in early June: "The private sector is almost without exception in very good shape, in excellent shape I would say, *but it is keeping its savings outside the country*."

The scope of capital flight has prompted some journalists to dare to name the masterminds of the looting. On June 6, *El Sol de México* correspondent Jesús Michel Narvaez wrote that "just as we do not seek to justify José López Portillo's decision to establish exchange controls in 1982, neither can we accept the 'degradation' of the measure by Miguel de la Madrid, who went so far as to eliminate controls of any kind. . . . How much longer will Miguel Mancera Aguayo continue to give the orders?" Mancera is the main architect of the denationalization of Mexico's banks.

On June 7, journalist Luis E. Mercado asserted that whether a deal on the debt is reached or not, "what is sure is that the levels of uncertainty in our country are growing by the hour. . . . On the money markets, the Bank of Mexico made huge efforts to prevent uncertainty from pushing rates upwards; they nonetheless managed to reach 60%; in the banks and exchange houses speculation against the peso was open and nervous. The environment, in sum, grows seriously worse."

Porfirio Muñoz Ledo, senator for the new Party of the Democratic Revolution (PRD) of former presidential candidate Cuauhtémoc Cárdenas, has charged that the Salinas government's deal with the International Monetary Fund "covers up the imminent devaluation of our currency" to occur after July 6, which is election day in various states around the country. All eyes are on state votes in Michoacán and Baja California Norte, where Salinas was defeated by Cárdenas during last year's July presidential election.