Dateline Mexico by Héctor Apolinar

New financial blackmail

Postponement of the debt reduction package has triggered another "crisis of confidence" in Mexico.

During the last quarter of 1989, the Salinas de Gortari government suffered a serious setback at the hands of the Anglo-American creditor banks, which have decided to postpone yet again the signing of the final agreement for the highly touted "foreign debt reduction" package. The result has been a crisis of confidence in Mexican financial and economic circles, which in turn has seriously affected the economy.

The refusal of 90% of the creditor banks to give new credits can only be understood as a maneuver to sink Mexico even further in economic depression and social chaos. At the same time, there is a serious cabinet crisis inside the Salinas government, triggered by Bank of Mexico director Miguel Mancera Aguayo, who presented his resignation in early November to protest what he described as a "highly inflationary" 1990 federal budget.

Mancera's move immediately caused a case of nerves among local financial circles. The weekly magazine *Mexico's Journal* of Dec. 18 commented that those circles believe that "if Mancera goes, Mexico will lose its man of restraint, the person who can prevent the Presidents from pushing the economy into financial chaos."

Mancera achieved his purpose. President Carlos Salinas de Gortari got down on his knees and agreed to a modification of the budget. As a result, the Finance Secretariat prepared a brutal tax collection plan to extract resources, "from wherever," to finance the budget with "non-inflationary means," as Mancera demanded.

It was no accident that the tax-collection program was prepared by the Finance Secretariat's Undersecretary of Revenues, Francisco Gil Díaz, considered one of the Bank of Mexico director's intimates. In addition to Gil Díaz, there are other important officials such as Deputy Finance Secretary Guillermo Ortiz Martínez, and Budget and Planning Secretary Ernesto Zedillo Ponce de León, both members of the "minor leagues" of the Bank of Mexico and "educated" by Mancera.

Mancera has also been able to force Salinas to jack up the interest rates that the government pays on the internal public debt, through Treasury Certificates (CETES) and other paper. The measure only benefits those powerful economic interest groups in the country who hold the majority of the CETES the government has issued in the last few years.

The interest hike dealt a deathblow to Salinas's policy of trying to gradually lower internal interest rates in the hope of reducing the inflationary and speculative bubble caused by high interest rates. Said policy went into effect when the debt reduction agreement of July 1989 was first announced.

Through June 1989, the interest rate on 28-day CETES was 56% a year. In July, they were reduced to 46%; in August to 34%. As of October, however, the Bank of Mexico began to raise the interest rate, first to 37% and then to 42% by December.

Private financial groups, through the accounting offices of the major companies that invest in CETES, immediately began a pressure campaign to force the government to start issuing 14-day CETES again, which had been abolished by Salinas to prevent the debt from becoming too short-term. Investors simply refused to buy the 28-day CETES unless the interest paid were 50%. As of the end of November, 70% of the CETES issued by the Central Bank had been sold at 14-day terms, and at a 42% interest rate.

All of this, of course, drove the cost of credit offered by the national banking system through the ceiling. This in turn has seriously affected national economic activity of all sorts by making productive investment prohibitively costly. At the same time, the interest rate hike has forced many already indebted businesses and companies to raise their own prices in order to meet the exorbitant cost of credit.

Equally serious is that high interest rates are being paid for money that cannot be productively invested, a phenomenon which is accelerating inflation and economic stagnation. An analysis appearing in the daily *El Financiero* of Dec. 7, indicated that "the government will continue to be 'hostage' to interest rate policy." Regarding the date for the signing of the foreign debt package, the official newspaper *El Nacional* of Jan. 3 wrote that it will be postponed even further, until "the middle or the end of next month."

Unless Salinas de Gortari finds the courage to break with Mancera's financial blackmail, a social explosion of incalculable consequences threatens to engulf Mexico. Already in the developments of 1989's final quarter one can see the intention to push the country into a dead end, in which brutal repression of Mexico's suffering population can be the only thing on the agenda.