Dateline Mexico by Carlos Cota Meza

Mexican T-bills are risky business

What happens to the sovereignty of a country when its domestic debt falls into the hands of foreigners?

On Feb. 15, the Bank of Mexico announced that it will be increasing its offerings of 28-day Treasury Certificates (Cetes) by 75% in order to meet the heavy foreign demand for this government debt paper.

The measure was immediately criticized by the analysis departments of the various brokerage houses that control Mexico's stock exchange—a logical enough reaction on their part, given that the Bank of Mexico and the federal government have proven to be "disloyal competitors" by drawing capital, and foreign capital in particular, away from the stock exchanges. Cetes certificates bear an interest rate of 17.58% a year, against a forecasted annual inflation rate of less than 10%. This promises an annual yield of over 100%!

And yet, according to the brokerage house of Bancomer, "there continues to be the risk of a flight of foreign investment in the face of any uncertainty of economic policy or delay in approval of the Free Trade Agreement." Indeed, according to that firm, some $800 million that had been invested in Cetes and other government paper fled the market—and the country—in just the eight days between Feb. 4 and 12. According to *El Financiero* of Feb. 23, this represents 30% of the foreign capital that has entered Mexico since the beginning of 1993, and about 9% of all the capital invested in the government's short-term internal debt.

What the brokerage firm analysts have not succeeded in explaining, is why the government has adopted this "disloyal" and risky strategy. The daily *La Jornada* editorially asks: "Has this strategy been adequately examined from the financial standpoint?" The answer is an unequivocal "yes."

Miguel Mancera Aguayo, Bank of Mexico director and the real financial brains behind the Salinas de Gortari government, decided on this operation in coordination with the U.S. Federal Reserve. The move was intended to capture capital fleeing from the United States in the face of the "uncertainty" that the new Clinton administration has introduced into an already unstable and declining economy.

As is well known, all of the world's stock exchanges are on the decline, and the foreign demand for Mexican government financial paper is consequently a direct result of the fact that a portion of their increasingly nervous capital wants a refuge in government debt which is considered "more secure."

Mancera is merely restaging the maneuver with which Antonio Ortiz Mena financed his so-called "stabilizing development" model during his tenure as finance secretary in two successive Mexican governments (1958-64 and 1964-70). The U.S. Federal Reserve also allowed Ortiz Mena to maintain yields on government paper higher to those of U.S. certificates, in order to "attract capital" which would enable the Mexican government to accumulate sufficient international reserves with which to buy back its own foreign debt. During that period, Ortiz Mena kept the national economy in an "intermittent period of economic rise and fall," as he himself described his model.

Not surprisingly, several Mexican newspapers have already begun to warn against the dangerous "foreignization and North Americanization" of Mexico's internal debt. They note that by the end of 1992, foreign investors possessed 33.5% of government bonds (Cetes, Pagafes, and the rest) issued on the internal market—a full one-third.

The question as to whether this government strategy has been adequately considered, must again be answered with a "yes." And not only that, but it is a policy approved by the Mexican Congress and incorporated into the federal budget for 1993.

On Nov. 10 of last year, when Finance Secretary Pedro Aspe requested approval of the proposed 1993 budget, he told Congress that "with foreign interest rates below domestic ones, the contracting of foreign financing will allow us to reduce the balance of domestic indebtedness and thereby reduce even further total interest payments on the public debt. . . . Despite the fact that financing the deficit is not required, authorization is sought for a direct foreign indebtedness . . . equivalent to $3.5 billion."

The upshot of all this is that the Mexican government is contracting foreign debt (at lower interest rates) to pay the higher interest charges on domestic debt which is increasingly in the hands of foreigners. What will happen if the "citizens of Wall Street," who are the foreign *and* domestic creditors of the Mexican government, demand payment by force?

One thing you can be sure of: If and when Mexico is invaded by the creditors (domestic, foreign, or whatever), the current government and its buddies are not likely to be caught hanging around to defend the country.

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