One year of IMF 'solutions' leaves Mexico bankrupt

by Carlos Cota Meza

One year after the financial debacle of December 1994, and after 12 months of the free-trade "solutions" of the International Monetary Fund's (IMF), Mexico is today in bankruptcy, both in its public and private sectors. The main reason for this state of affairs, which equally afflicts the world economy, is the decoupling of productive activities, which have collapsed abysmally, from monetary and financial aggregates, which are growing at an explosive rate.

What is happening in the domestic financial markets, in the money markets, with the dissolution of the Mexican banking system, has no correlation with the real physical economy which produces useful goods for the existence and reproduction of society as a whole.

If we understand this fact, then the only viable alternative for Mexico is a bankruptcy reorganization of the economy, precisely as the Ibero-American Solidarity Movement (MSIA) has proposed in its Bill to Reactivate the National Economy, which has been presented to the National Congress. If this is not done, Mexico will blow up in the immediate period ahead, with even more serious repercussions than we have already suffered.

The most urgent problem at the moment is that the Zedillo government is operating in the domain of virtual reality, the imaginary world of free trade. President Ernesto Zedillo's Jan. 29-31 tour of various European countries gives clear evidence of this. Do the host and visiting governments really believe that "Mexico is solving its problems"? Perhaps Zedillo's hosts believe that, somehow, despite the situation in which they find themselves, they will be able to "help" Mexico?

It is more than a year since the Christmas 1994 meltdown in Mexico, and the Zedillo government is still unable to explain what happened. According to Treasury Secretary Guillermo Ortiz Martínez, the policies that caused the crisis are the same ones that will solve it.

In his "commemorative" statements to the various domestic and international media at the end of 1995, Ortiz argued that among the principal causes of the crisis was "the current accounts deficit of the balance of payments," indicative of a dependency on foreign financing rather than internal savings. However, says Secretary Ortiz, "the presence of a current accounts deficit is not an undesirable phenomenon. . . . A developing country such as ours offers attractive yields . . . that attract resources from abroad." In other words, Ortiz is offering precisely what Carlos Salinas de Gortari's Treasury Secretary Pedro Aspe offered, if in more "moderate" terms.

In order that such "moderation" will work, Ortiz maintains, the Mexican government must have "healthy public finances," a "prudent management of monetary policy," and "an increase in internal savings." This is the identical economic policy applied by Salinas—that is, imposed by the International Monetary Fund—that destroyed all private and government structures in the country during the past six years. Today, the Zedillo government is insanely attempting to apply them again, to place the country on a supposed course of "economic recovery."

Destruction of productive activities

What has been done to the national economy cannot be measured in dollars; statistically, there is no way to put a value on the process of destruction, apart from what the government itself presents as information on the Gross Domestic Product (GDP) and its macro-micro variables.

In 1995, there was an officially acknowledged decline in the GDP of 7%. This figure is undoubtedly "touched up"; it

© 1996 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

could well be as much as 10%, which is the official contraction of the Mexican economy during the second trimester of 1995. In any case, the GDP does not reflect the physical economy, since included in its category are all manner of non-productive and speculative activities.

We would do better, therefore, to examine some aspects of the physical economy. The National Institute of Statistics (INEGI) acknowledges 2 million new unemployed due to the severe economic adjustment program applied beginning in January 1995. However, the Labor Department maintains that the number of unemployed last year could be as many as 6 million. The Mexican Labor Federation says this figure could be 8 million. The Mexican labor force is currently about 37 million.

The National Council of Construction Industries, one of the biggest job-creating sectors, has indicated in preliminary figures that 2.75 million jobs were lost in construction alone. Of the country's 12,000 construction companies, 7,000 are idle, 600 have shut down and sold their equipment at half its original value, and the rest are working at 50% capacity. At the close of 1995, the sector was reporting a mere 250,000 employees.

According to the National Federation of Industrial Councils and other federations, 15,500 businesses shut their doors; another 86,000 are staring bankruptcy in the face and working at 50-60% of capacity. The National Federation of Chambers of Commerce estimates a 23% decline in commercial activity in 1995. In December, a seasonally high-sales month, there was a 15% fall-off in sales compared to the same period in 1994. These federations see no chance for a recovery in what remains of this century.

According to INEGI, the manufacturing sector is showing "less favorable" signs, with an estimated 8.4% contraction between January and October 1995. But this figure is not credible, given that Central Bank reports on wages corresponding to manufacturing industries showed a 21.8% fall in real terms for the month of September 1995, compared with January of the same year. That is, in nine months, one-fifth of wages paid by the manufacturing sector disappeared!

The Agriculture Department, in its preliminary report, indicated that only 14 million of 20 million hectares devoted to farming were sown in 1995, a decline of 30%. Production of corn, beans, rice, and wheat fell 30% in tonnage; meat production fell 20.5%; milk, 22.9%; eggs, 24.4%. Rural credit collapsed 47%, and total food production was 25 million tons, compared to national consumption needs calculated at 37 million tons (a deficit of 12 million tons, or 32% of total consumption.)

Food import requirements for 1996 are projected at 12-15 million tons, at an indeterminate cost in dollars, given that the international prices for various products are rising. According to Agriculture Secretary Francisco Labastida Ochoa, "It will take 15 years to reverse the crisis in agriculture." Until the year 2010.

TABLE 1
Mexico's official foreign debt
(billions of dollars)

	1994	1995	Change
1) Public foreign debt	89.3	117.8	+32%
Public sector	85.4	102.4	
Obligations to IMF	3.9	15.4	
2) Private foreign debt	47.2	41.4	−12%
Owed by banks	25.1	21.1	
Owed by companies	22.1	20.2	
Total	**136.5**	**159.1**	**+17%**

What is money for?

Up until 1970, the creation of money on the government's part was measured by the existence of paper and metal currency in the hands of the public (plus checking and savings accounts), in order to have a means for financing the productive process and for necessary commercial transactions. This is no longer the case.

After the December 1994 crisis, the Central Bank imposed a limit on expansion of money in circulation, as well as a contraction of money already in existence, in order to reduce "the volatility of the peso against the dollar" (i.e., to reduce the number of pesos available to be exchanged for dollars), and to limit "aggregate demand" in the economy (the argument is that there is too much paper money chasing a limited number of goods), which is forcing an inflationary price spiral.

According to the Central Bank, money in circulation as of January 1995 was 56.92 billion pesos—representing an already significant contraction over 1994. By the end of 1995, money in circulation was 66.808 billion pesos (an increase of 17.4%). But there is no correspondence between this increase and either increased productive activity or the buying power of wages. Money in circulation increased even as the GDP took a nosedive, wages collapsed (wage-earners are the greatest source of demand for currency, since they neither have credit cards nor invest in the stock market), bank credit fell by 22%, and there was a drastic contraction of productive activity in general.

Thus, the creation of money has no correspondence to the production of goods. The increase of money in circulation is due primarily to the monetization of interest on the domestic debt.

Astronomic rise in financial aggregates

Interest on the domestic debt for 1995, according to preliminary estimates, cost 43 billion pesos (some $6.8 billion, at an exchange rate of 6.3 pesos to the dollar as an annual average), and the rescue of the banking system has officially

cost, up until now, 84.6 billion pesos ($13.4 billion). If we compare the nominal peso amounts involved, these categories amount to nearly twice the amount of money in circulation. The bank rescue of 1995 alone cost more than the government allocated in the budget to the Department of Public Education (40.611 billion pesos, or $6.4 billion) and for the Health Department (9.760 billion pesos, or $1.5 billion), combined.

The bad-loan portfolio of the banking system is calculated at 115 billion to 120 billion pesos ($19 billion), a figure nearly equivalent to the budget allocation that the Executive grants its 19 ministries.

These simple relations between financial debts and the administrative functioning of the State, should suffice to conclude that it is absurd and ridiculous to talk about "healthy and balanced public finances," while the bank bailout and interest on the domestic debt already surpasses what is in the public treasury. In 1996, it is officially estimated that government intervention to salvage the banking sector will cost another 83 billion pesos ($13.2 billion).

Regarding the banks' bad-debt portfolio, something approaching the truth is finally appearing. Treasury Secretary Ortiz admitted at the January meeting of the Mexican Banking Association, that 17% of the Mexican banking system's entire loan portfolio is non-performing, that is, that payments are not being made on $15 billion in loans, triple the amount recorded at the end of 1994. For some banks, he noted, the bad-debt figure reaches as high as 23%.

In the United States, a bank is considered unhealthy if its past-due loans add up to more than 3% of its total loans. Mexico's 17% is already catastrophic, but if U.S. standards were applied, the situation would be seen to be much worse. In Mexico, only the total amount of interest owed is considered past due when payments are missed; in the United States, if three payments are missed on a debt, the whole debt is counted as "non-performing." Applying those standards to Mexico, financial analysts estimate that some 34% of domestic bank loans are non-performing.

According to the president of Banamex, Roberto Hernández, 70% of the officially accepted non-performing debt corresponds to "corporate credit" which has not been able to be restructured. This corporate credit involves the deals struck between the banks and no more than 100 companies on the stock market, that dipped their hands into bank coffers to issue loans to themselves. It perhaps comes as no surprise that the non-performing debt of the corporations is 84 billion pesos ($13.3 billion), precisely the cost of last year's bank bailout, or this year's.

Throughout the previous six-year period, the Central Bank repeatedly intervened in the so-called secondary market, lending money directly to financial intermediaries, for the purpose of resupplying them, and thus sustaining high-yield payments and the "stability" of the Salinas-era market. These interventions added up to 533.755 billion pesos ($85 billion), a figure comparable to the total Mexican budget for 1996 of 553 billion pesos.

Recent investigations have shown that the claims of the Salinas government that it achieved "fiscal balance," were a lie. It is believed that Treasury interventions into the stock market through its various dependencies, cost 36 billion pesos each year for 1993 and 1994. These interventions were never reported in the budget. Between the Treasury and the Central Bank, financial and market operations were carried out to the tune of 605.755 billion pesos, representing 84% of the GDP for 1994.

Do these figures appear in any category of accountability of the GDP? Do these huge quantities of money generate new wealth in some sector of the physical economy? Absolutely not. These financial obligations were imposed on the Mexican economy, and are growing more rapidly than the economy itself can pay them off. To extract the money required to pay off these obligations, austerity budget programs were imposed under the dubious slogan of achieving "fiscal balance."

Foreign debt

Because the Zedillo government is paying off the speculators' losses incurred when the financial bubble created by Salinas de Gortari burst, the public foreign debt is now registering an explosive exponential growth which, should the Mexican economy try to pay it—as it has been—the economy will die from the effort.

The means by which the national economy has shouldered the burden of these debts is very simple: conversion of internal debt (dollar-denominated Tesobonos) to foreign debt (the "Clinton package"); conversion of Tesobonos in the hands of Mexicans, to investments in Cetes (peso-denominated government bonds) with an interest rate at least 300% higher than those originally contracted; taking on more little foreign loans (from the World Bank and Inter-American Development Bank), so that the private banks can pay their foreign creditors; payment in dollars at the current exchange rate, to foreign capital fleeing the Mexican market and to Mexican capital joining the stampede, and so forth.

Salinas de Gortari's six-year term left a public foreign debt of $85.436 billion through December 1994. By December 1995, under the Zedillo government, the foreign public debt was already $102.436 billion. Adding to this the loans of the International Monetary Fund to the Bank of Mexico (another $11.48 billion), Mexico's total foreign public debt has risen to $117.776 billion, an increase of 31.8% in just 12 months (see table).

It is a fact that the Treasury never includes the Bank of Mexico's foreign debt in its accounts, as if central banker Miguel Mancera paid them from his own pocket. But, as all Mexicans who do pay well know, both amounts are a single debt.

Estimating a 7.3% fall in GDP, and an average annualized exchange rate of 6.3 pesos to the dollar, some analysts calcu-

late the 1995 GDP at $285 billion, such that the total foreign public debt represents 41% of the national product. Adding to this the foreign debt of the banking sector ($21.147 billion) and of the non-banking business sector ($20.204 billion), the total foreign debt in December 1995 ($159.127 billion) represented 55% of the 1995 GDP.

There is one consolation in all this, we are told. As the Treasury has assured us, such increases are not as problematic as they seem, in that the huge conversion operation of internal debt to foreign debt was merely a means of extending repayment deadlines. Throughout last year, Ortiz insisted that "we are changing short-term debt for long-term debt, resulting in a less-pressured payment schedule."

But what Ortiz does not say, is that this insane growth of financial obligations has nothing to do with productive activities which generate jobs and produce goods. What is going on is a purely financial transaction, in which the mountain of dollars involved is a world apart from the real physical economy. And all of it has been placed on the shoulders of the Mexican people.

According to the Treasury Department, service on the foreign public debt for the year 1995 rose to $47.288 billion, of which 86.7% ($41.4 billion) corresponds solely to payments on money market instruments, within which the Tesobonos absorbed $30 billion. The amount of $5.888 billion was allocated to servicing the interest on the "traditional" foreign debt.

For 1996, payments of $15.481 billion have been allocated to service the public foreign debt. Added to what was paid out in 1995, the total is $62.769 billion. Thus, in a mere 24 months, 70% of what had been the public foreign debt in December 1994, was paid out in service charges.

And if it is the case, as they claim, that Mexico's commercial banks and non-banking private businesses will be paying out $14.948 billion combined in 1996, then the total outlay of the Mexican economy between last year and this will equal 87% of what the Mexican public debt was in December 1994.

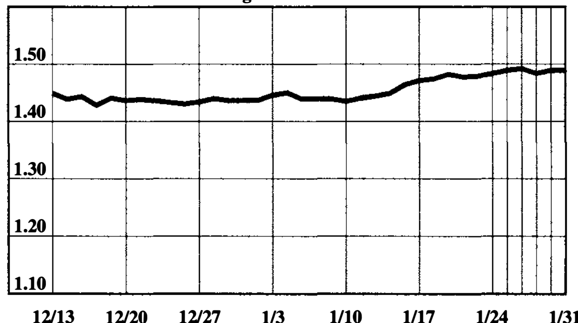
Why mix foreign public debt with foreign private debt? The answer is simple. Who is giving the dollars to the "private sector," if not the government? Ever since the blowout of the Salinas "economic model," not only was internal debt converted to foreign debt, but private foreign debt was also converted to sovereign (public) foreign debt. Throughout 1995, for example, the World Bank gave Mexico loans worth $2.387 billion, and 63% of that ($1.518 billion) was used to "rescue the national banking system."

Can the Mexican economy survive by delivering its flesh and blood over to the voracious parasites of usury? Evidently not. The only guarantee for survival that Mexico has, is for the nation to repudiate the IMF policies which have led it into the worst crisis of its history. The only possibility for survival is that the State once again undertake the historic function for which it was created: to lead the sovereign national economy along the path to progress.

Currency Rates

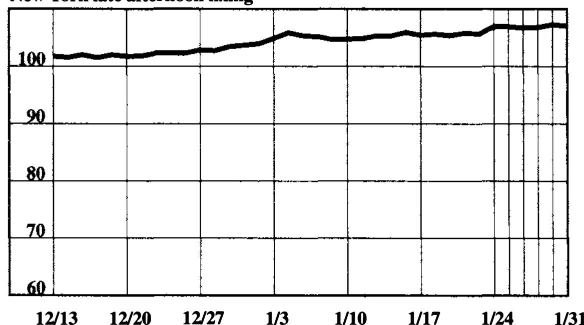
The dollar in deutschemarks

New York late afternoon fixing



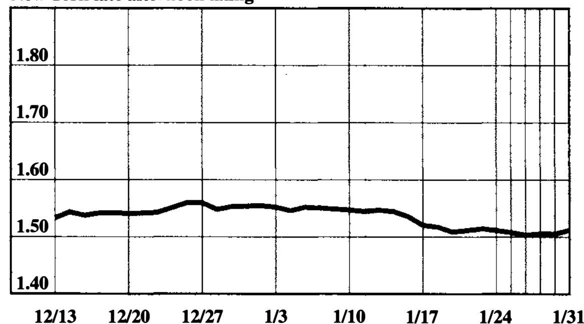
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing