Confronting the Debt: An Update

The economic crisis is far from over, and the stakes get higher as Mexico's alternatives narrow

Strong pressures are being exerted on our country to reshape its economic structure. This situation has grown so tense that former Finance Minister Jesús Silva Herzog resigned. Nevertheless, the problems haven't gone away for new Minister Gustavo Petricioli. Given the limits of Mexican tolerance and the failure of orthodox policies to resolve the foreign debt problems, VOICES OF MEXICO asked two specialists on Mexican economic affairs, Edna Lydia Santín and Jorge Quezada del Río for an update on the economy. Their views:

No doubt this is the decade of the debt. By the mid-eighties the foreign debt of the developing countries was close to one trillion dollars. The United States debt is over $500 billion, and among Europeans, the French owe close to $60 billion. Economic growth, however slow and unequal, has obviously been achieved by massively resorting to credit. Among the most significant factors contributing to this situation are an overabundance of money on the world capital market (due partly to high oil prices between 1973 and 1979), an unrestrictive monetary policy on the part of the United States, and the increasing international activity of both banks and multinationals.

In this context, Mexico's debt went from $34 billion in 1978 to $85 billion in 1982. Net payment of principal and interest tripled over the same period of time and by 1982 represented over 50% of the country's total exports.

1982 was the decisive year. Payments due according to the structure of the debt placed the country on the cutting edge of a moratorium. The loss of confidence in the peso and in the national financial system, generated unprecedented speculation. As a result there was large scale capital flight, and current accounts deteriorated under the impact of high imports and falling exports. In order to support the rate of exchange, both expenditures and capital exports were financed by means of foreign loans.

Total chaos erupted a few months later when in August of 1982 Mexico, Argentina and

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LA LUCHA DE FUNDIDORA MONTERREY
INDEPENDIENTE VOLKSWAGEN
Sindicato Mexicano de Electricistas
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Photo by Rubén Pax; Imagen Latina.

Demonstrators demand a moratorium.

Brazil declared a suspension of payments. The three accounted for 70% of the developing countrie's public debt contracted with the international banking system. The crisis during the summer of '82 and the so-called "Mexican weekend" in August of the same year, led to generalized consciousness of the danger lurking in the excessive indebtedness of the developing countries. Many of them were forced to adopt rigurous policies designed to correct their foreign accounts and their fiscal deficits.

Photo by Marco Antonio Cruz; Imagen Latina.

Pawning their tools and their livelihoods.

In Mexico's case, Miguel de la Madrid's new administration (1982-1988) embarked on a plan based on a letter of intentions signed with the International Monetary Fund in December of that year. The plan was meant to reduce the fiscal deficit to 5.5% of the gross internal product in 1984 and to 3.5% in 1985. The fiscal budget would be slimmed down, fiscal income would increase and total net indebtedness would be $5 billion.

The results were not really encouraging. Inflation began to climb again (it was 63.7% that year), there was a reversal in the accumulation of foreign reserves, and by the end of 1985 the deterioration of the balance of payment's current accounts had become more acute ($541 million against $4 billion in 1984.)

Nonetheless, the Mexican debt-payment plan persisted. When in late 1985 the question arose as to whether, given prevailing conditions, it was possible to service the foreign debt, the answer was yes, on the basis of the following:

1) When the principal of the debt was restructured, payments were deferred into the future. This was done by renegotiating the public debt, through the Fiduciary to Cover Exchange Risks (Ficorca, a mechanism put into effect for the private sector's debt), and through the Paris Club. The plan called for refinancing payments as they came due, meaning that a new loan would be contracted in order to cover them. Thus, the required payment was legally covered, and at the same time a new long-term debt was contracted. The process is repeated over and over again, and this is also the case with other countries and with private enterprise.

2) Mexico figured the possibility of meeting its foreign commitments estimating a level of imports sufficient to achieve adequate growth levels even after servicing interest payments. The plan estimated that during the 1986-1990 period exports would yield a balance of $135 billion. Thus, together with surpluses from tourism, assembly plants, etc., total income in foreign exchange over this period would come to $145 billion. On the other hand, the imports needed for industry over the same period were estimated at $90 billion, which added to the $55 billion that would be payed out to service the debt during those five years, seemed to square with the expected income.

Nevertheless, in order to have contingency reserves on hand, the plan also called for $20 billion in foreign loans. With these figures, by the end of 1990 Mexico's total foreign debt would have reached $115 billion, approximately 30% of the gross internal product (versus the 50% it constituted in 1985), and less than 3 years worth of exports (versus 3.5 years at present.) On the other hand, the foresight was that by 1990 interest payments would be equal to less than a third of income from exports of goods and services, while at present they account for 40%. This meant that a greater proportion of income from exports could be used for imports to stimulate economic growth.

This plan was part of the National Program for Development Financing, and has been repeatedly ratified by President De la Madrid. The President stated this clearly in a recent interview: our problem, he said, is not how to pay the debt but rather how to contract more in order to service the debt.

Yet today the plan's viability is in danger because of significant changes in the situation. The drastic fall in income from oil exports is a major factor. Secondly, and to a certain extent related to the plan's deteriorating feasibility, is the resignation of Jesús Silva Herzog as Finance Minister.

Oil provides close to 70% of Mexico's income from exports, and 50% of fiscal income. Both a significant part of the country's internal development, and the possibility of meeting our foreign financial obligations, depend on oil sales. Yet during the first five months of the year, the price of Mexican export oil fell by about $12 a barrel.

This has a violent impact on Mexico's economy. If the current trend is maintained, and estimating the stabilization of oil prices at between $10-12 per barrel for the rest of the year, income from oil during 1986 would be, half of what had been estimated. This means some $6 billion less, an amount equal to 80% of the yearly foreign debt service. The fall in income from taxes levied on oil exports will mean $1.5 billion less will enter government coffers, creating additional pressure on the fiscal deficit and on the balance of payments.

Collapsing oil prices —and deteriorating conditions of exchange on the world market— together with a scarcity of foreign financing, have finally forced both the government and the private sector to finance their needs almost exclusively with internal resources. The obvious consequence of this is greater pressure on financial markets and increasingly higher interest rates.

The unstable world oil market lea to uncertainty, and original plans were modified to average oil exports of 1.3 million barrels per day at a price somewhere between $11 and $14 per barrel. Thus, the country's income from oil exports would be little over $5 billion, a figure that alters foreign exchange forecasts for the year. The federal budget for 1986 estimated the country would need $4.1 billion in foreign loans. The collapse in oil prices means this amount increases to $10 billion.

Nonetheless, the Ministry of Finance, in charge of overseeing the country's foreign debt, estimates that net savings of $4 billion can be achieved as follows: $1.5 billion can be saved by reducing total imports; an additional $0.5 billion can be obtained by increasing exports other than petroleum; $0.8 billion can be saved because of falling international interest rates and, finally, reducing the amount of foreign exchange incoming for reserves by $1.2 billion. Thus, for 1986 Mexico would need a total of $6 billion in incoming foreign exchange, and this is the current figure for negotiations with multilateral institutions and international private banks.

With prevailing international conditions in mind, the Mexican government reiterates its thesis that in order to pay, the economy must grow. The possibility of a moratorium has also been dealt with politically, stating that negotiations will be carried out according to the country's capacity to pay, through dialogue and without confrontation. The search for financial resources has come up against difficult conditions, and both multilateral institutions and the usually less strict private banks are imposing strict requirements.

Although the most recent agreement with the IMF expired in December of last year, it is probable that a series of recently ennacted measures are part of the general economic policy conditions that the IMF requires in its letters of intent. These include a fiscal adjustment of 1.2 billion pesos made public last April 23; the process of either shutting down or selling state-owned enterprises, the elimination of a series of government subsidies and of many internal price controls, among others.

Given the situation, the Mexican government seems to be facing three different alternatives. One is to sign a new agreement with the IMF, meaning stricter compliance with its demands, while opening the door for the the government to contract new loans and continue servicing the debt. Another possibility is not to sign with the IMF and declare a temporary suspension of payments, such as occurred in 1982, or to arrive at some kind of agreement that would exempt Mexico from some or all debt-service payments this year. There could also be a combination of options along the above lines. The third alternative would be to negotiate directly with the creditors, without an agreement with the IMF, in conditions similar to those of Brazil, a country with which Mexico is keeping in close touch.

The first alternative is the one Mexico has followed since 1976, and this was clear under former Finance Minister Jesús Silva Herzog. Given the economic situation —recession, high inflation and deficits, etc.— the IMF's prospects are controversial because the institution's backing is a necessary guarantee for private banks to provide fresh credit. The government has responded to the IMF's demands by saying that it has already applied all possible measures, and that the Mexican people "have reached the limit of their sacrifices."

The second alternative, a temporary suspension of payments, depends on international conditions, since Mexico is rapidly integrating into the world economy through the opening of its external sector. The whole of the na-

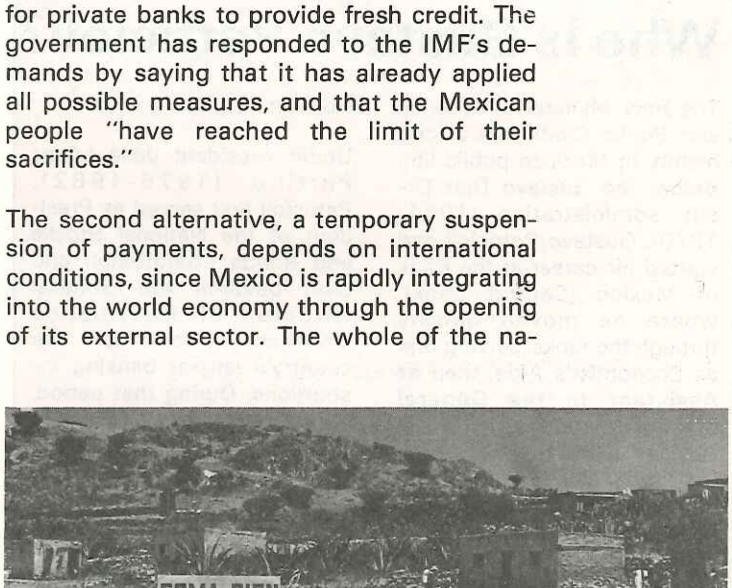

Photo by Rogelio Cuellar

The paradoxes of poverty.

tion's productive plant is being organized around this process, and a trade blockade, for example, would be a catastrophe.

The third alternative has been gaining force, particularly since the resignation of Silva Herzog and the appointment of Gustavo Petricioli as Finance Minister.

There are two hypotheses concerning the change-over. The first is that a consensus is forming around the thesis that payment of the debt must be compatible with both external conditions and national reality. In the same vein, the idea that there must be economic growth in order to pay, would gain force. This position is sustained by President De la Madrid and by Secretary of Programming and Budget Carlos Salinas de Gortari. With the presidential campaign only 18 months away, it's also likely the government will try to create conditions for a smoother change-over. This implies limiting austerity measures imposed by the IMF because they have a negative effect on relations between the government and broad sectors of the population.

Additionally, it seems that Silva Herzog's resignation also points to the failure of negotiations with the IMF. Given Mr. Petricioli's broad experience in banking, we may also assume that the country will seek direct negotiations with the creditor banks, with or without a previous agreement with the IMF.

On the other hand, although Petricioli means to keep his positions very close to presidential policy, he has come out against IMF policy on numerous occasions. "Mexico, like all Latin American countries, must be extremely careful in applying adjustment policies, most of which have been recommended by the IMF, so that economic problems don't lead to social and political conflict. "Latin America is not only engaged in an economic process. It is also struggling to further democracy and social justice," said Gustavo Petricioli recently. Whatever the final outcome, no one doubts that Mexico's relations with its international creditors —both private banks and multilateral institutions—, will be defined over the next few months. And to a great extent this will determine the country's economic project over the next years.★

Who Is Gustavo Petricioli?

The new Minister of Finance and Public Credit has a long history in Mexican public life. Before the Gustavo Díaz Ordaz administration (1964-1970), Gustavo Petricioli had started his career at the Bank of Mexico (Central Bank), where he moved quickly through the ranks, serving first as Economist's Aide, then as Assistant to the General Manager, later as Technical Advisor to the General Director, then as Manager and finally as Sub-Director of the institution.

He began his public service career during the Díaz Ordaz administration as director of financial studies at the Ministry which he now heads. Later, he was named Under-Secretary for Income in that same institution by President Luis Echeverría (1970-1976). He was also the country's National Soccer Commissioner during that period.

Under President José López Portillo (1976-1982), Petricioli first served as President of the National Stocks and Bonds Commission and later became the General Director of Multibanco Comermex, one of the country's largest banking institutions. During that period, he was also named President of the Mexican Banking Association.

At the beginning of the De la Madrid administration, Gustavo Petricioli held the post of General Director of Nacional Financiera (NAFINSA), the largest finance enterprise in Mexico. From there, in mid-June he was named to replace Lic. Jesús Silva Herzog as the country's new Minister of Finance and Public Credit.

Photo from La Jornada.

Finance Minister Gustavo Petricioli.