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The IMF accords add up to a shell game

by Timothy Rush

The truth about the much-ballyhooed new IMF dealings with three of Ibero-America's biggest debtors—letters of intent with Mexico and Argentina, and a compensatory financing request from Brazil—is that IMF accords or no IMF accords, there is still no new money for the region.

The "Ditchley Group" of 31 banks which set up shop in late October has been beating the drums for "flexible" lending policies by the big international banks, telling them not to "overreact" to the Third World debt crisis by cutting off credit too quickly or drastically. This was the message brought into New York meetings between IMF Managing Director Jacques de Larosière and top officers of a score of international banks Nov. 15-16. De Larosière reportedly stressed the importance of putting fresh money into Mexico and Argentina as complements to the IMF packages there. Paul Volcker, the same evening of Nov. 16, told a Boston audience that he wanted a special fund to help bail out large borrowers such as Mexico.

All these drumbeats indeed have a hollow sound—the banks are as bankrupt as the creditors.

The $1.1 billion "bridge" loan to Argentina is a case in point. First announced with fanfare at the beginning of November, this loan "still has a long way to go," bankers told the *Journal of Commerce* Nov. 18. When and if it does come through after a difficult syndication process, it will reportedly be dispensed in tranches just like the IMF loan it is supposed to be a "bridge" to—and bear its own set of conditionalities. All this for a quantity which is barely two-thirds of the $1.5 billion that Argentina is already in arrears on paying.

$7 billion pipedream

De Larosière reportedly told the New York bankers that if they thought $1.1 billion for Argentina was rough, they should start thinking about six times that much for Mexico. According to a Nov. 18 *Financial Times* report, the IMF director may have asked the commercial banks to put up as much as $6.5 billion in commitment for "fresh money" to go into Mexico during 1983.

These commitments would be in addition to the $1 billion that Mexico is seeking from the banks just to get through the rest of 1982 in a package with $1.0 billion of remaining funds from the August BIS-coordinated "bridge" financing and the first tranche of the $3.6 billion three-year IMF deal.

The bankers gave the de Larosière proposal a "distinctly cool reception," according to one press account, "because the commitments were much higher than expected." The bankers complained that the IMF accord with Mexico wasn't tough enough—while the IMF told the bankers that the commitment was a condition for the IMF to sign a final version of the accord with Mexico in mid-December. It's a case of "you first"—and nobody's moving.

The question is how long the Ibero-Americans can be strung out on promises.

Incoming president Miguel de la Madrid in Mexico, and the team he will be bringing in Dec. 1, are under pressure from the bankers to resolve the ambiguous language of the IMF letter of intent in the direction of traditional prescriptions of "free exchange rates," elimination of exchange controls, and a sharp rise in internal interest rates.

Talk of a new peso devaluation (current official rate for most transactions is 70 to the dollar) has blossomed in the U.S. and British financial press. De la Madrid is being told that if he devalues and begins to lift exchange controls, then he will begin to get some of those dollars which have been successfully siphoned off into the black makret. This will in turn help convince bankers to lend the new money.

But de la Madrid has other methods to begin to get some flight capital back, including naming some names of those who took it out. There is frantic behind-the-scenes bargaining now going on to "cut some deals" with the incoming administration on the question. Typical was the proposal of Sheik Amini Awad, a Knight of Malta and Lebanese leader in Mexico, who has almost all his multi-millions outside the country. Awad is calling for a "blind trust" to be set up with five top New York investment houses, for investments back into Mexico that would protect the names of the participants.

And while the sections of the letter of intent dealing with wages, prices, interest rates, and exchange rates, were ambiguous, those dealing with specific austerity goals were not. The 8.5 percent goal of budget deficit as a percentage of GDP is an almost 50 percent drop from this year's estimated 16 percent. This on top of an economy plunging quickly below the zero growth level. (Finance Minister Silva Herzog announced Nov. 17 that the growth figure for this year will be at best 1 percent, which will mean a last half average well below zero.)

The $5 billion ceiling on new public sector borrowing builds in a heavy new crunch on imports. After interest payments of $12 to $15 billion are met, there will at best be $10 to $11 billion for imports, as against the $24 billion of 1981 and an estimated $16 to $17 billion for 1982.

In this kind of squeeze, the alternative of coordinated debt action with the rest of the continent will be as close to de la Madrid's mind as it has been to López Portillo's. Silva Herzog was asked in the Mexican congress Nov. 17 why Mexico had signed the IMF letter of intent instead of embarking on joint debt moratoria with Brazil and Argentina. He responded with a two-word phrase: it would have been a "dramatic error." This is far from the last word.

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