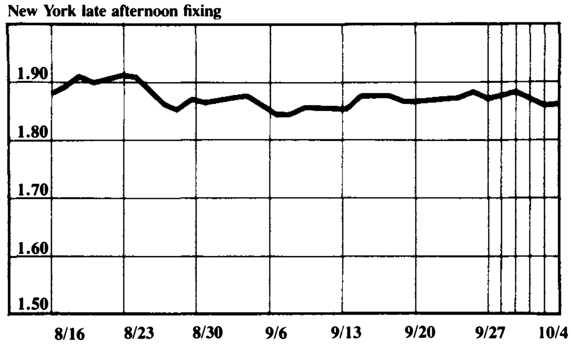
Currency Rates

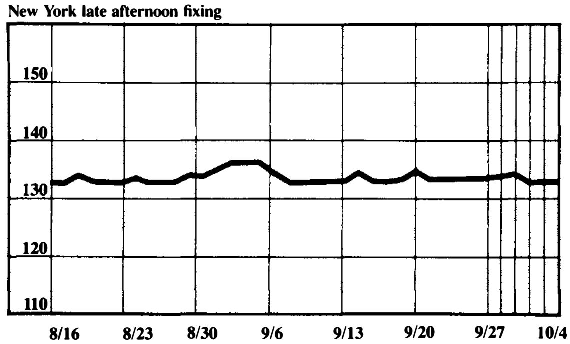
The dollar in deutschemarks

New York late afternoon fixing



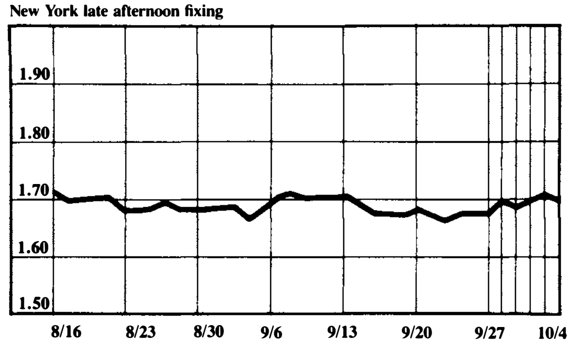
The dollar in yen

New York late afternoon fixing



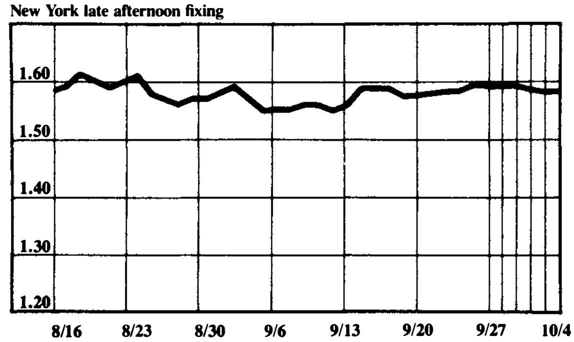
The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



Debt bomb ticks for Mexico's Salinas

by Carlos Cota Meza

A conjuncture of economic and financial crises in Mexico promises to hand President-elect Carlos Salinas de Gortari a debt bomb with a very short fuse when he takes office Dec. 1. The press is full of dark economic predictions and analyses, and all and sundry are demanding that the President-elect, still reeling from the voters' stunning challenge to his sure-win candidacy on July 6, define himself on these crucial issues.

Mexican Foreign Trade Undersecretary Luis Bravo Aguilera acknowledged in his recent speech to the National Foreign Trade Council that "during the current six-year period, Mexico has sent $76 billion abroad in foreign debt service payments, representing three-fourths of the total foreign debt." He also asserted that during the same period, the country "has lost $43 billion because of price reductions on the raw materials" it exports. This last figure, he said, is equivalent to Mexico's total government income in 1987, or to 92% of total agricultural production of that same year.

Wharton Econometrics (the economic forecast service hired by the Foreign Trade Ministry) reports that Mexico's foreign debt rose from $87.5 billion in 1983 to $104.7 billion today, despite the vast sums paid in service costs.

Countdown

The experts at the newspaper *El Financiero* have worked out a still more precise projection on how the debt bomb is going to explode in Mexico. They reveal that Mexico this year will suffer a $6.1 billion foreign exchange deficit. The foreign trade surplus—which has been the pride of the outgoing De la Madrid government—will be down by $3.5 billion. At the same time, an additional $600 million have had to be paid in interest costs on new international credits. Further, with the freeze of the exchange rate as of December 1987, Mexico has had to make prepayments on the private foreign debt of nearly $2 billion.

According to official figures for the first half of 1988, the positive trade balance was $2.391 billion, down $2.368 billion from the same period in 1987. This drop—according to the experts—is due to the fact that total exports increased 5.2%, while imports rose 53.3%. Officially, this year was projected to achieve an $8.3 billion surplus, the result of exports of $22.3 billion versus $14 billion worth of imports. The export figure was never reached; the import figure has already been exceeded.

The international price for oil is already nearing $9 per barrel, and the Saudis warn that it could reach $5 per barrel by December. The De la Madrid government will exit from office this year having made debt service payments of $16.7 billion, and it is expected that interest rates will rise even further as soon as the U.S. presidential elections are over.

These factors, according to *El Financiero*'s experts, are the ones which have contributed to the sharp deterioration of Mexico's balance of payments, which as of July 1988 showed a positive account of $170.5 million, compared to the $2.8 billion balance of the same period in 1987.

Trade deficit looms again

Month by month, the exports are falling and imports rising. Experts estimate that by November or December, Mexico will again enter into a trade deficit. The point at which the curves intersect will mark the moment of detonation.

Officially, the import figure for this year is $18 billion ($4 billion more than what was originally projected), although in reality the figure is larger. Growth of imports in the first half of this year is due in part to the process of economic "liberalization" and Mexico's entry into GATT (General Agreement on Tariffs and Trade), which triggered a 164% hike in consumer goods imports. In this second half of 1988, import increases are due to the desperate import of food to make up for the total collapse of the agricultural sector.

Although the De la Madrid government has had the "good fortune" to be able to blame natural disasters (drought at the beginning of the summer, and torrential rains, cyclones, and hailstorms in early fall), Mexico's farm producers know full well that the worst disaster has been Miguel de la Madrid's economic policy, crafted by President-elect Carlos Salinas de Gortari. During the four months (June through September) of climatic disasters, Mexican agriculture lost 2.5 million hectares of cropland. This has, in turn, led to severe food shortages, forcing panicked authorities to turn to the international markets to replace what was lost out of the 17 million tons of food that was the intended harvest.

No official institutions want to release the real figures, but it is known that emergency purchases have been made of thousands of tons of powdered milk, corn, wheat, rice, beans, beef, pork, eggs, and other foods. Domestic producers are crying for a halt to the bloodletting represented by this panicked policy of free imports and lack of accessible credits and parity price guarantees.

Nor does anyone want to report on how much these emergency imports cost. What is known is that milk has risen 100% in price in the past six months, and price indicators on the Chicago grain markets for the month of July showed an increase of 35%, primarily a response to speculation with the world drought.

Mexicans are fully aware that the Miguel de la Madrid government was a debacle, and that its farewell is being couched in numerological esoterics alleging that "inflation has been reduced." One is obliged to ask what to expect of an incoming President Salinas. The Mexicans answered in the July 6 vote, when the PRI candidate was sent the message: A moratorium on the foreign debt has never been, nor is it today, either "suicidal" or "insane." His mandate from the banks notwithstanding, President-elect Salinas will face the inevitable rather early in his term: Either he confronts the international usurers, or he resigns.

A secret program?

Recently, a Reuter news wire reported that Rep. Jim Wright, the Democratic Speaker of the U.S. House of Representatives, had held meetings with envoys of Carlos Salinas de Gortari to discuss a "novel proposal" for the two new governments of both countries: The United States would increase its purchases of Mexican oil for its strategic reserves, but instead of making payments to Pemex, it would pay an unnamed private company, which would use this oil income to buy up the Mexican foreign debt at market prices.

Neither Wright, nor the President-elect of Mexico, has either confirmed or denied the report. What is known is that the Overseas Development Council of Washington has prepared a bill whereby Mexico would join a North American Common Market with the United States and Canada, in the areas of mining, agriculture, pharmaceuticals, and auto (the sectors already most advanced in their integration with the U.S. economy). The leftist adviser of Salinas de Gortari, Héctor Aguilar Camín, has already proposed the North American Common Market as the ruling program of the new Mexican administration.

The other aspect of Mexico's integration with the two northern economies would be "bank liberalization," the equivalent of installing a completely unregulated international banking center on Mexican territory.

The initial proposal for "banking modernization" comes from Salinas de Gortari himself. The current president of the Association of Nationalized Banks, banker Juan José de Olloqui, heads a working team to fine-tune the details of an eventual legislative bill to standardize commercial operations of foreign banks with Mexico's nationalized banks, which would reduce to five giant financial entities the number of Mexican banks which maintain operations abroad: Banamex, Bancomer, Serfín, Somex, and Banco del Atlántico.

The striking silence that currently exists within the Salinas team is a wait-and-see on how the U.S. electoral process defines itself, before any "spectacular announcements" are made.