IMF's $24 billion: a loin-cloth to cover Mexico's bank bailout

by Rubén Cota Meza

On June 14, Mexican President Ernesto Zedillo reported that he had "instructed" his Finance Secretary, José Angel Gurría, to prepare and carry out a program of "financial armor for Mexico regarding its foreign obligations." Zedillo pointed out that, when he had taken over the Mexican Presidency in late 1994, he was faced with "$44 billion in direct private sector debt, and, of course, [dollar-denominated] instruments of public debt all coming due" over the course of the following year. Now, Mexico has girded itself with financial "armor" to avoid bequeathing a similar situation to the next President, Zedillo reported.

The next day, Finance Secretary Gurría and the head of the Banco de Mexico announced that a $23.7 billion debt refinancing package had been negotiated with the International Monetary Fund (IMF), the U.S. Federal Reserve, the Central Bank of Canada, the World Bank, and the Inter-American Development Bank (IADB).

The refinancing, which has been variously dubbed the "Program for Financial Strengthening 1999-2000," contingency lines of credit, the IMF's "anti-crisis window," or, as Zedillo christened it, "financial armor," is intended, over the next 18 months, "to reduce to a minimum [Mexico's] need for access to the international financial markets."

In other words, the battered body of the Mexican economy no longer has the strength to swim in the turbulent waters of financial globalization, infested with speculative sharks.

Despite Zedillo's claim to have given instructions to "design and implement" such a strategy, in fact the contingency refinancing was announced by the IMF's Interim Committee during its late-April 1999 meeting in Washington, and triggered an unusual protest by the Mexican government at the time. For weeks before and several weeks after the IMF announcement, Gurría and other Mexican government officials insisted that Mexico did not need to be included in the IMF's "anti-crisis window." Or at least "give it a different name," said the besieged Gurría. Further, declared Bank of Mexico Governor Guillermo Ortiz, the conditions for the new credits are "extremely severe."

What did the IMF directors see in the Mexican economy that made them decide to "protect it" from a forthcoming speculative attack? What motivated the Mexican government to go from incipient rebellion to enthusiastic submission?

The banking hole

On June 17, two days after the announcement of Mexico's new "financial armor," the government's new Institute for Protection of Bank Savings (IPAB) announced that it would be taking over the administration of Banco Serfín, the third-largest bank in Mexico. The capital infusion Serfín needs, according to the IPAB, is 23 billion pesos (some $2.5 billion).

The next day, IPAB executive secretary Vicente Corta Fernández warned that the Mexican banking system could be a factor that weakens the "financial armor," while at the same time announcing that he has authorized the release of 84 billion pesos (approximately $9.3 billion) to clean up the financially troubled Bancrecer, another of the 16 insolvent Mexican banks which have required government intervention. To rescue Banca Promex, the IPAB assumed 20 billion pesos in bad debt; and resources allocated to the Banco del Atlántico will be another 22 billion pesos. In the case of Inverlat bank, the IPAB announced that it would hire a specialized accounting firm to review its portfolio, and to determine the reserve loss that IPAB must make up.

In the case of Serfín, it will be cleaned up in order to sell it off. Most probably, it will end up being given to the world famous Dope, Inc. bank, the Hongkong and Shanghai Banking Corp., which three years ago bought 19.9% of Serfín stocks, and whose investments are fully guaranteed by the Mexican government: If the bank suffers losses, the government not only guarantees the value of its assets, but will pay interest on them.

In the case of Inverlat, the Canadian Bank of Nova Scotia is negotiating to increase its participation by 10%, bringing it to 55% ownership; before such a move occurs, the Mexican government would assume the bank's losses. In the case of Banco Promex and Banco del Atlántico, the intent is to clean them up by merging them, respectively, with Bancomer and Bital, while at the same time merging Bancomer and Banamex, Mexico's two largest banks, which represent between them 40% of the national banking system.

According to Phil Guarco, vice president of Moody's Investors Service, the Mexican banking system needs "at least" $13.4 billion, and if the government wants to clean up Promex, Atlántico, and Bancrecer, that figure would rise to $25.4 billion. It must be remembered that in 1996, the insolvent banking system was already rescued to the tune of $65 billion by the notorious Fobaproa scheme. Combined with the projected bailout cost today, the "financial hole" represented by the bankrupt Mexican banking system is now pushing $100 billion. Further, the overdue loans of merely that portion of the banking system considered relatively "healthy" (i.e., not counting the 16 intervened banks) reached 110,575 billion pesos (a little more than $12 billion) in just the first quarter

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of 1999, equivalent to 11.5% of the total loan portfolios of those banks.

Holes everywhere

To satisfy the payment requirements on the $44 billion in short-term foreign debt inherited from the Carlos Salinas de Gortari government, President Zedillo has subjected the productive economy of Mexico, for four and a half years, to bestial looting, in which all real (as opposed to speculative) economic activity is generating net losses. This includes the companies and sectors in which Zedillo's export strategy is concentrated, which has led to a growing trade deficit. This situation is looking an awful lot like that of 1993 and 1994, when Salinas de Gortari's "economic miracle" was headed toward the abyss (see "Mexico Is on Course for a Salinas-Style Blowout," *EIR,* June 11, 1999), only this time the weight of the debt is centered around productive sectors incapable of sustaining rising debt service payments.

The rate at which private foreign debt payments are coming due is simply stunning. Foreign debt of non-financial private sector companies which will come due in the second half of 1999 and in 2000 is $25 billion, while the corresponding debt of financial companies coming due during that same time frame is $17 billion. The combined private sector must somehow find and channel payments of $32 billion in the next 18 months.

The so-called "financial armor" may be intended to reduce the Mexican government's need for access to the capital markets, but this won't help the private sector. "What the government announced is refinancing of public sector debt," said Jorge Marín Santillán, president of the Business Coordinating Council. In the meantime, the Finance Ministry has stated emphatically that the contingency credits "will not bail out any company, nor assume the credit risk of the private sector."

Mexican businessmen, above all those shady characters who became magnates via the fraud-ridden privatization process carried out under the Salinas government, are finding themselves forced into declaring bankruptcy or selling their companies at fire-sale prices, given the impossibility of getting new credit or refinancing their debts on the capital markets. Such is the case, for example, with the Ancira Elizondo and Autrey families, owners of Altos Hornos de México, a subsidiary of the Northern Steel Group, which has declared itself in default on $1.9 billion in debt. So, too, is the case of Raymundo Gómez Flores, who received $80 million for Motor Coach Industries, Inc., for which he had paid $311 million in 1994.

Altos Hornos de México produces 25% of all Mexican steel, and is responsible for 19% of the country's steel exports. The Autrey family is also the majority owner of Banco Inverlat, which is on the list awaiting a bailout with public funds. Raymundo Gómez Flores had become the main producer of buses in North America.

President Ernesto Zedillo's call for new "financial armor" will do nothing to protect Mexico's economy.

Crystal armor

Given the refinancing needs of various aspects of the Mexican economy, the IMF put together a financial package out of baling wire and chewing gum. The IMF came up with $4.2 billion to refinance debt owed *to the IMF itself,* to cover $3 billion due in the second half of 1999 and $2.9 billion due in the year 2000. This may speak to the IMF's own debts coming due, but it doesn't provide a penny to the strangled productive sectors of the economy.

The World Bank will provide $5.2 billion for 1999-2000, intended for a program to "combat poverty" and to "support measures designed to preserve economic stability." Also for 1999-2000, the IADB will offer $3.5 billion for "financial and institutional development of states and municipalities." These last two components of the "armor" are not for 1999-2000, as the official name of the program suggests.

The U.S. Export-Import Bank has approved trade credit lines for $4 billion, to finance Mexican purchases of U.S. goods. These are the same lines of credit that had been announced during President Clinton's visit to Mexico in February. The other $6.8 billion will come from renewal of "exchange stabilization lines" with the U.S. Federal Reserve and Canadian Central Bank, contracted within the context of the North American Financial Agreement, also known as the secret financial clauses of the North American Free Trade Agreement, or NAFTA.

So armored, it is the bankers' fondest hope that Mexico will be able to weather the speculative fury of the markets in the period ahead.