

Dateline Mexico by Josefina Menéndez

One year later

On Aug. 23, 1982, the Mexican debt crisis blew up. A year later, it's better only in appearances.

Three events over the next weeks will serve to ratify the Mexican "financial success story" image currently spreading abroad.

First, there is the meeting of Presidents Reagan and de la Madrid at La Paz, Baja California Sur, on Aug. 14. Economic matters will be pretty much in the background; up front should be issues such as Central America and immigration.

Second, Mexico is likely—though not certain—to receive the restructuring of \$20 billion in short- and medium-term public sector principal that it has been seeking since the house of cards first came down a year ago. This is debt which has or will come due between August 1982 and December 1984; the current deadline is Aug. 23.

That is also the deadline on the repayment of \$1.53 billion to the Bank for International Settlements in Basel, Switzerland. The BIS role in Mexico's initial bailout a year ago was one of the "innovative features" hailed as a model by international bankers eager to utilize the world economic crisis to enhance the power of supranational credit institutions, at the expense of the national sovereignty of the debtor countries.

Unlike Brazil, where failure to repay a portion of the BIS "rescue package" has been the center of controversy and pressure, Mexico stands in a good position to make the payment in full and on time.

This is because Mexico has gone beyond its formal agreements in axing imports. Finance Minister Silva Herzog announced Aug. 5 that Mexico

has a trade surplus for the first six months of over \$6 billion. This reflects the policy of keeping imports to roughly \$3.5 billion, while the exports (85 percent oil) brought in close to \$10 billion.

That level of imports is economic (and political) suicide. It is 60 percent below 1982 levels (when the economy dropped from an 8 percent growth rate to a -1 percent growth rate).

The enormous trade surplus has been sufficient to meet monthly foreign interest payments of roughly \$1 billion. This has left the inflows coming from multilateral institutions like the IMF and a \$5.0 billion "jumbo" from commercial banks to cover repayment of arrears on debt and suppliers' credits as well as build up reserves.

The next okay from the IMF, releasing \$433 million of the next quarterly tranche, is a foregone conclusion for the middle of the month. The IMF nod in turn will release another \$1.1 billion in the disbursements of the March jumbo loan. All this cash, added on to \$600 million that Mexico has not yet drawn down from its previous jumbo disbursement, should keep the gnomes of the BIS happy, and will probably pay a big chunk of overdue suppliers' credits at the beginning of September.

However, the situation is like that of a person who can successfully hold his breath for 60 seconds—earning the applause and admiration of the spectators—but who eventually has to inhale.

During the remaining four months

of the year, an increase in imports will be unavoidable. But, because of the BIS payment, Mexico will have less "new outside cash" to cover the additional cost. Further, the fourth quarter is when the current dual exchange rate is scheduled to be merged into one—and the central bank wants a maximum of reserves to withstand any attempts to stampede a new maxi-devaluation of the peso at that time.

Externally, Mexico faces the danger of new international interest rate run-ups and possible renewed shakiness in oil prices.

The interest rate question in particular is gnawing at the minds of many economic planners here. The refinancing of the \$20 billion debt is at 1½ percent over LIBOR, while the previous carrying cost of those loans was ¾ percent. There are additional hefty fees for the renegotiation itself, and LIBOR itself is now on an upward track again.

Mexican financial sources indicate that Citibank demands nothing less than 3 percent over LIBOR on refinancing private sector loans that are part of the government bailout program called FICORCA.

For every one-point increase in international interest rates, Mexico faces roughly \$800 million more in interest payments: 25 percent more than the country is spending each month on all imports.

What's now hitting home is that the enormous sacrifice of this year—including a 40 percent decline in real purchasing power for workers as well as the 60 percent cut in imports—has all been made just to pay interest; not a penny of the \$85 billion in principal has been touched. It does not take a very acute government bureaucrat or leader of the governing PRI party to see that more of this kind of success story will kill Mexico.