

Dateline Mexico by Carlos Cota Meza

The financial system 'goes gringo'

Miguel Mancera has already annexed Mexico's central bank to the U.S. Federal Reserve; what's next?

In the month of July, Mexican interest rates on 28-day and 90-day Treasury Certificates (Cetes) were yielding 13.46% and 14.47% respectively, in comparison with a December 1992 common rate for both of about 17%. Everyone feared that such a decline in yields would mean that foreign capital would begin to flee to more lucrative destinations. But it didn't happen that way, and therein lies a tale.

In the beginning, it was said that the declining yields were due to the fact that some banks at odds with the authorities were forcing the Cetes offerings downward, as a way of easing defaults and bankruptcies.

Later came the official line, that the fall in interest rates was due to "the relatively abundant existence of foreign capital on the financial market." Others said that the phenomenon was due to "an oversupply of dollars" in the national economy, the result of putting the debts of certain companies on the international markets. But nothing happened, and the flow of foreign money into the Mexican financial system continued like rivers of gold.

The Mexican Stock Exchange (BMV) released its weekly report stating that cumulative foreign investment had risen to \$48.8 billion. Of this total, \$22 billion was in government paper (the same Cetes whose yields were falling) and the rest primarily on the stock exchange, thereby controlling some 66% of the government's internal debt. More than half of the "internal debt" is in fact foreign debt.

The question all the analysts are asking is: What is the level of resis-

tance to this decline in yields which foreign capital can absorb, before abandoning the market altogether? Will there be a withdrawal of investors, or outright capital flight?

The monthly flow of foreign investment, as reported by the BMV, is on the decline. In January, there was an inflow of \$580 million (in December 1992 it was \$1 billion). In February, the flow rose to nearly \$1.6 billion, only to fall to \$1.4 billion in March. In April, it fell to \$980 million. In June and July, according to official government propaganda, investment stabilized at \$800 million.

It is clear that the speculative bubble of government paper is such that new investment is finding things very unstable. How can the government pay interest rates (which must be in dollars), when the investments are only for 28 and 90 days?

This is where the "financial genius" of one of Mexico's most corrupt and treasonous officials comes in: Miguel Mancera Aguayo, director of the Bank of Mexico. Last July 10, International Monetary Fund (IMF) economist Guillermo Calvo explained to a conference in Bogotá, Colombia how Mancera does it.

The IMF economist stated that "Latin America's central banks should carry out agreements with the U.S. Federal Reserve to be able to control monetary flows in dollars and to have a more efficient banking system. . . . It is becoming increasingly difficult for the banks to be able to control inflation and liquidity. We should realize that we are in a dollar

zone and that our economies have been dollarized."

Calvo presented the alternative of Latin America's central banks making loans in dollars both domestically and abroad; he added that said banks "find themselves limited by the terms of deposits. Because the banks don't have the backing of the Federal Reserve, they can only lend on terms precisely equal to what they have on deposit. If the deposits are for three months, the banks cannot lend for six months." (Precisely the situation of the Bank of Mexico.)

Calvo further argued that in the United States, if a bank has a temporary shortage of capital, it can request a loan from the Federal Reserve without a discount, something the Latin American central banks could do only if they had a pact with the Federal Reserve.

In a discussion afterwards with this news service, Calvo said that with the North American Free Trade Agreement (NAFTA), "there already exists a \$5 billion credit line to the Mexican central bank. One could call this a 'swap' credit. The idea is that this become generalized throughout Latin America."

This is how Mancera has sustained his speculative orgy with government debt bonds. The peso has not been devalued because it is the dollar which is the real currency in Mexico, at least on the financial circuit. It has not fled to the United States, because the so-called internal debt of the Salinas government is now part of the financial business of the United States itself. Mancera has a direct line with the U.S. Federal Reserve to administer U.S. investments in Mexico.

This is the first result of President Salinas's decision to give full "autonomy" to the Bank of Mexico. Thus, with or without NAFTA, Mexico has already gone "gringo."