

## Dateline Mexico by Carlos Cota Meza

### A new devaluation is in the works

*Mexico is proof "in the small" that the world financial crisis is systemic, not regional.*

At a meeting of the nations of the Asia-Pacific Economic Cooperation (APEC) group in Vancouver in November 1997, Mexico was presented as a success story of supposed economic "recovery," as an example to be followed by the nations of Asia. The same argument was repeated at the recent Davos gathering of world financial leaders, by people like Renato Ruggiero, the head of the World Trade Organization.

This is laughable to anyone familiar with Mexico's real situation.

According to the just-released 1998 Monetary Program of the Bank of Mexico (the country's central bank), presented by its new governor, former Finance Secretary Guillermo Ortiz, the so-called "Asian crisis" will hit the Mexican national economy on two flanks: its trade balance, and its current account deficit.

The first point means that the devaluations of the Asian currencies against the dollar have effectively revalued the Mexican peso relative to those Asian currencies. This means that cheap exports from Asia will be flooding the Mexican market, and that Mexico's non-oil exports will be more costly than those of their Asian competitors.

Government authorities are now admitting that this is pushing Mexico toward a major devaluation. Their only quandary, is how in the world to present this as a "positive" economic event and further proof of "success."

President Ernesto Zedillo himself stated that "more difficult competition is facing" Mexican products on international markets; and his Trade Secre-

tary, Herminio Blanco, openly mooted steps to stop "imports originating from Asian countries," explaining that "the competitiveness of Mexican products would be maintained" by "the exchange rate regimen," i.e., by devaluing the peso. Banco de Mexico vice-director José Sidaoui was most explicit of all: A devaluation of the peso "is a possibility that cannot be rejected."

With regard to the government's second point of concern, the current account deficit, financial insiders here report that the flow of foreign capital into Mexico will be "negatively impacted" as long as the Asian crisis lasts.

In 1997, Mexico's foreign reserves grew by \$2.5 billion, due to relatively high oil prices (no longer the case), and the central bank's shady procedure of buying up "excess" foreign exchange from the country's commercial banks. Many ascribe this "excess" to laundered drug money. As for the government plan for 1998, it originally projected the accumulation of another \$1 billion in foreign reserves. But now, this "goal [will be] difficult to meet, given the financial conditions in Asia and the lower oil income," as one columnist put it.

What this adds up to is that the Mexican government is going to have great difficulties meeting its upcoming obligations on bonds it floated in 1997 to pay back the United States government for its share of the famous February 1995 \$50 billion bailout package. At the time, these bonds were described by then Mexican Ambassador to Washington, Jesús Silva Herzog, as

"borrowing from Peter to pay Paul." There are \$16 billion in these "sovereign Mexican bonds" currently in circulation around the world, which could just as well be dubbed "Peter-Paul bonds."

On top of all this, Mexico has to service its official foreign debt, which is traditionally done through outlays from the Federal budget. But there is a problems here as well.

In early January, Mexico's new Finance Secretary, José Angel Gurría, announced that government spending this year will be reduced by approximately 15 billion pesos (\$1.8 billion), because of the sharp fall in the world price of oil which has reduced Mexico's revenues. Unconfirmed rumors are that the state oil company, Pemex, will see its budget slashed by another \$1.3 billion as well. What this adds up to is that public spending this year could be reduced by \$3 billion or more, on these two line items alone.

Late last year, the government was singing a different tune. At the time, President Zedillo rejected the demands of the opposition parties to reduce the Value Added Tax, by arguing that their proposal would reduce tax revenues by about 30 billion pesos (\$3.6 billion), which would require spending cuts of an equivalent amount, and that this would trigger a catastrophic recession. But now, scarcely three months later, the government is announcing spending cuts of nearly that same amount . . . arguing that such cuts are desirable in order to *continue the ongoing economic recovery!*

So no matter how loudly they promote the Mexican "success story," international bankers are in fact not sanguine about Mexico. The *Journal of Commerce* on Jan. 25 noted: "Capital flows from abroad will tend to dry up if Brazil devalues, as some believe is going to happen. . . . Mexico should be ready."