Labor leader calls for freedom from the IMF, as bankers demand equity

by Carlos Cota

The leader of the Confederation of Workers of Mexico (CTM), Fidel Velázquez, in a surprising mid-March declaration said: "As long as the country is subject to economic pressures of the International Monetary Fund, there will be no margin to recover the purchasing power of the working classes," adding that the economy of the country "must be managed with greater independence respecting entities such as the International Monetary Fund."

This statement and in particular the mention of the IMF, which had not been directly named by the labor leader in more than a year and a half, marks the culmination of a series of protests by various economic sectors against the chaos reigning in Mexican national finance.

Although it is clear that this process of destruction of the economy is the work of the "visible hand" of international usury in the negotiations to "restructure" Mexico's onerous foreign debt, the bankers are asking for even more.

The Secretary of Finance and Public Credit found himself forced to "deny" the *Wall Street Journal*'s report that Mexico had agreed to pay part of its debt with stock in the semi-public enterprises. A statement signed by Secretary Jesús Silva Herzog affirms that "at no moment has it been considered that the state sector will capitalize part of the existent debts to date," and that "the restructuring of the debt was done exclusively in financial terms." However, in concluding the communiqué, the finance secretary admitted: "It was incorporated in the last phase of negotiations with the creditor banks that, upon agreement of the parties and in specific cases, said debt may be capitalized. All this with strict adherence to the pertinent legislation."

This is in reality nothing but a "yes" from the Mexican government, and has a lot to do with the pressures of the creditor banks, who fear that negotiations may break down on the Mexican side under internal pressures.

In the same renegotiation process, which agreed on a packet of $48.7 billion in 1984, only $28.6 billion were restructured, leaving $20 billion "pending" to be negotiated in the course of 1985. This "pending" amount mainly belongs to the oil company Petroleos Mexicanos, the Comisión Federal de Electricidad (electrical utility), Fertilizantes Mexicanos (fertilizer), and some steel industries such as Las Truchas—precisely the firms which the Wall Street Journal *picked out as appetizing for the creditors to seize as assets in payment for debt.*

Businessmen protest, too

So far in the first quarter of 1985, all the economic indicators signal that the "predictions" of the economic cabinet of Mexico have gone haywire; the present year started with a skyrocketing of all the public services provided by the state, concluding in the increase in the the constant devaluation of the peso from 17 to 21 centavos per day. The constant devaluation of the peso is officially called "slippage."

As was to be expected, with the new rate of slippage of the peso projected at 34%, the flight capital accelerated and brought as a consequence an abrupt rise in the interest rates, reaching around 54%. According to a study by the Confederation of Workers of Mexico (CTM) presented to President Miguel de la Madrid, in the first six months of 1984, the deposits of Mexicans in U.S. banks—which in totality equal 40% of the foreign debt of the country—increased by $870 million.

The business sector has protested along with the labor unions. An authorized spokesman for the National Chamber of Industry of Transformation (CaNacInTra) presided over by Jacobo Zaidenweber, considered as the industrialist closest to the de la Madrid government, declared that the rise in interest rates is "all out of proportion." Seconding him, other organizations have said that the businessmen who have carefully prepared their predictions of cash flow now face a sudden substantial and unexpected increment in their financial costs, which is an even heavier blow to national productive plant. These brusque changes are outside the "gentlemen's agreement" reached at the end of 1984 which offered interest rates no higher than 35-40%.

Bankruptcies reported by national banking

Since 1983, the nationalized banks have lived in permanent anxiety. The high interest rates they must pay to savers upon receiving deposits has made it impossible for them to place credits with usurers, because the money is just too expensive. In the face of this situation, the Bank of Mexico has come on the scene to "save" them by issuing its Treasury Certificates through which the commercial banks can obtain liquidity to deliver the interest rates agreed upon with the savers.

But this too has suddenly changed. In the first half of March the Bank of Mexico and the finance secretary announced that they would put into effect the decree on the obligatory purchase of their "monetary regulation bonds" for the amount of 250 billion pesos, explaining the procedure as a policy to "restrict circulating money."

The nationalized commercial banks reacted negatively to this measure. Among the opponents is Gustavo Romero Kolbeck, the current general manager of the Banco Obrero and an ex-director of the Bank of Mexico. The Banco Obrero is property of the CTM, the oil workers union, and the electrical workers union, among others.

Romero Kolbeck called the measure a "new banking reserve requirement," stating that it "will limit the liquidity of the banks and make the situation very tight from now until May." Romero Kolbeck said that "the national banks will limit the granting of all types of credit as a consequence of the lack of liquidity provoked by the acquisition of monetary regulation bonds."

At the time of these statements, an anonymous report started to circulate about the collapse of liquidity in the national commercial banking system. Up to March 14, 1985, the report says, commercial banking had acquired 187.5 billion pesos in monetary regulation bonds, which equal three quarters of the 250 billion pesos of forced acquisition. This amount means 84% of the 222.5 billion pesos of receipts during the months of January and February. But if to this is added the fact that commercial banking is obliged to deposit 10% of their receipts as a cash reserve in the Bank of Mexico, the total withdrawal of funds goes up to $210 billion pesos, which represents 94% of what was taken in during January and February.

The report maintains that once the obligatory purchase of the monetary regulation bonds was concretized, the commercial banking system would only have at its disposal 12.5 billion pesos for its bimonthly receipts for loans to productive activities at a nominal rate of 60% and an effective rate over 90%. This means going back to the worst moments of 1983. The anonymous report concludes that commercial banking will only have available to finance productive investment what it can receive in the nine-and-a-half months to come, although at rising interest rates and discounting for the stiffer cash reserve requirement.

Speculative boom on stock market

Ever since the new investment company laws were approved by the national congress last December, permitting the creation of a parallel financial market, the commercial banks have suffered a permanent scarcity of liquidity while the stock houses have entered into a speculative spree since they are now permitted to process all kinds pf capital, including that coming from drug trafficking.

Insofar as the restrictive measures of the Bank of Mexico became known, the commercial banks flocked to buy Treasury Certificates, which the central bank was offering in an unusual amount: 145 billion pesos, placed at 91 and 28 days. Nonetheless, the stock brokerage firms, anticipating the commercial banks, bought up most of the 28-day certificates, demanding them at a rate lower than 60%. One brokerage house (which still maintains anonymity) offered 84% interest for the TCs it bought and for the rest that remained. This generated suspense in the market, since the Bank of Mexico accepted the transaction. Eight hours after the deal, which had already generated reports that the interest rates would skyrocket to over 80%, was closed, director of the Bank of Mexico Miguel Mancera, ordered the operation annulled.

But the fact is that the banks are dying of asphyxiation, a fact there are attempts to disguise as "restructuring" of the national banking system, where at this moment at least nine banks going bankrupt! On Monday, March 18 it was announced that the 29 existing banks would be reduced to 20, with the disappearance of several regional banks.

The "merged" banks (i.e., disappeared), are the Banco de Monterrey, which will become part of the Banco del Atlántico; the Banco Sofimex, which will become the Banco Central Hipotecario; the Banco Latino, which will merge with Banpaís; the Banco de Promoción y Fomento, which will join Bancremi; and Bancam which will turn into the Multibanco Comercial de México.

The Banco del Noroeste will absorb Unibanco; the Banco Mercantil de Monterrey will merge into Banco Regional del Norte; Banca Promex will absorb Banco Refaccionario de Jalisco; Banco del Centro will merge with Banca de Provincias, Banco de Oriente and Banco Continental Ganadero.

Say what one will, the merger does not follow any plan to rationalize and make the management of the national banking system more efficient, a plan which has been outstandingly non-existent up to now. The truth of the case is that all of the "merged" banks were those that did not manage to make the obligatory purchase of Monetary Regulation Bonds, and could not stand up to the competition of the stock brokerage firms, in their new role as parallel private banks.

Presidential displeasure

In the Thirty-Second National Congress of the Revolutionary Confederation of Workers and Peasants, (CROC), inaugurated by President Miguel de la Madrid, he said, "I am not happy with the economic situation, the country's economy requires changes. . . ."

Although the President did not clarify what type of change, all the Mexicans agreed with his unhappiness. The question which remains up in the air after the presidential declaration is whether in the near future the "structural" changes with which the monetarist madmen are destroying the Mexican economy will be imposed, or the changes asked by the powerful trade union leader Fidel Velázquez.