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Banks reshuffle Mexican debt cards

by Valerie Rush

A sigh of relief went up (for the nth time) in financial circles when the de la Madrid government in Mexico declined to play its "Alan García card," and signed a new letter of intent with the International Monetary Fund (IMF) instead. As the *Wall Street Journal* editorially noted on July 24, "The likely alternative to the IMF agreement would have been default," with the obvious implications for Mexico's debt-burdened neighbors.

However, despite all the press enthusiasm about "generous new terms" and "a turning point" in the world debt crisis, bankers are well aware that the deal with the IMF is little more than another holding action, at best, a 60-day reprieve. Some are not even willing to give it that long. One well-placed London broker told *EIR*, "The latest reports that Mexico will need some $6 billion from the private banks above the IMF share mean we will soon be back to square one on Mexico. It was hard enough to get $2.5 billion new money from the banks. They'll never agree to $6 billion."

In fact, in a meeting with 500 creditor banks the evening of July 23, Mexican Finance Minister Gustavo Petricioli confirmed that Mexico would need no less than $12 billion over the next two years to meet its financial requirements. He urged that the banks be "constructively innovative" in efforts to come up with their half, disbursable once the IMF, World Bank, and other multilateral financial institutions participating in the package came up with theirs.

Petricioli warned that the success of the whole package depended on the banks' cooperation, and that any realistic assessment of Mexico's situation had to conclude that Mexico simply cannot pay its debt without outside support. "The reasons are simple. . . . They are neither dogmatic nor ideological, but arithmetic. A debtor can't pay what he doesn't have," he declared.

Much ado about nothing

The International Monetary Fund and its mouthpieces in the media have gone out of their way to portray the deal with Mexico as a significant "softening" and "dramatic departure" from the Fund's usually severe austerity dictates. In particular, they point to the IMF's decision to go easier in its demands for slashing the Mexican budget deficit, which now stands at 13% of the national GNP, and to include an "increased lending" clause in the loan package should oil prices fall below the $9/barrel level or economic growth not reach 3.5% in the first quarter of 1987.

In return, the Mexican government has apparently abandoned its threats to demand a dramatic lowering of interest rates, something which the Mexican labor movement specified had to be at the top of the negotiating agenda. Instead it has asked bankers for a $500 million "interest rebate" for 1986. Also, Mexico is promising many of the "structural reforms" the Baker Plan prescribes: reducing state sector, cutting the budget deficit, encouraging foreign investment, shrinking state subsidies, etc.

"The idea is to have an IMF plan that is different enough for the Mexicans to be able to present at home as a political breakthrough, but not so different that the banks will begin to worry that Mexico isn't required to put its house in order," according to one banker on the 13-member creditor steering committee for Mexico cited by the July 21 *Washington Post*.

And yet, as President Miguel de la Madrid well knows, the enforcement of his promises to the banks is another question. With official unemployment standing at 16% and the economy showing a per capita growth rate in 1982-1986 of *minus* 12%, the Mexican population will not easily be mobilized to feel sympathy for the bankers' plight.

At the same time, it is becoming increasingly clear that the IMF's "soft touch" is a not-very-convincing propaganda ploy. The *Wall Street Journal* editorially complains that oil and banking in Mexico remain in state hands, exchange controls are still in force, and "the agricultural sector will still be burdened with archaic land tenure rules," an outcome of the Mexican Revolution, which broke up the feudal latifundist system. The *Journal* recommends that the de la Madrid government administer a strong dose of "blood-and-guts politics," identified by its editor David Asman as yielding up political control to the opposition PAN party, if it is to convince the banks that it is serious about economic reform.

In short, there has been a lot of theater surrounding the Mexican debt crisis, but little substance in the way of solutions, financial or political. While the International Monetary Fund was coyly "submitting" to Mexican demands for a saleable deal, the Venezuelan government was unilaterally imposing a moratorium on $7 billion worth of the private sector's foreign debt (see article, page 43). And on Aug. 15, the García government in Peru may well default on a $180 million payment due to the IMF, setting the stage for what the *Washington Post* described as "an unprecedented rupture in the international financial system."

Both Peru and Venezuela undoubtedly looked for a forceful assertion of Mexican sovereignty in its debt dealings to serve as support for their own desperate actions. Mexico's decision to go another round with the Fund instead was a blow to such debtor unity efforts, and will make the fight for economic recovery on the continent that much more difficult.

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