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Dateline Mexico by Hugo López Ochoa

Morgan plan runs into trouble

The much-touted scheme is already collapsing, as the economy continues its downward plunge.

Just one and a half months after the Mexican government and Morgan Bank announced—amid great fanfare—their plan to issue long-term bonds to reduce the Mexican foreign debt by at least $20 billion, the plan is on the verge of capsizing. The foreign debt is now a whopping $110 billion, and the first admission that the plan was on the ropes came from Angel Gurria, an official of the Mexican finance ministry and the principal negotiator of the Morgan plan.

On Jan. 29, Gurria announced from Paris that "if the offers of the creditor banks do not satisfy us," the government could cancel the partial interchange of its debt for bonds. Gurria added, "We reserve the right to declare the auction canceled."

Many creditor banks have already rejected the plan, which offers them the opportunity to exchange part of their Mexican debt holdings at 50% of value. Heading the list of reluctant banks is Citibank, Mexico's principal foreign creditor. A UPI wire of Jan. 26 reports that Citibank president John Reed "announced that he doesn't plan to participate in the Mexico plan."

This declaration spread like wildfire among the international financial media. AP-Dow Jones reported, "Citicorp's position was adopted by other important financial corporations and, according to reliable sources, the Mexican bond plan organized by Morgan Bank will find it difficult to garner full support."

The next day, Finance Minister Gustavo Petricioli tried to calm the waters, issuing a statement insisting that Citicorp's refusal to participate in the plan "is neither definitive nor representative of the sentiments of all of Mexico's creditor banks."

But reality cannot be denied forever. On Feb. 2, former Chase Manhattan Bank employee Henry Kissinger arrived in Mexico on a surprise visit, where he proceeded to hold private meetings with Minister Petricioli. Their discussions were secret, but the rumors immediately began to circulate that Kissinger had come to collect his commission (known as *la mordida* in Mexico), for negotiating a deal that would prove acceptable to all the protagonists in the great Mexican debt charade.

On Jan. 29, Kissinger's former bosses at Chase announced that the Morgan plan did not interest them. Bankers Trust of New York followed suit. Chemical Bank and Manufacturers Hanover commented that they had not yet come to a decision, but analysts are saying that "none of the banks has sufficient capital to face the losses implied by negotiating the debt at a discount."

Western Europe and Japan are backing out also. British, French, and Dutch bankers have all said in various ways that, "considering the prices that Mexico will probably set, it is not such a fantastic deal."

As if that weren't enough, AP-Dow Jones reported on Jan. 25 that on the eve of the arrival in Japan of a Mexican delegation headed by Gurria, rumors quickly began to circulate that "innumerable Japanese institutions find the plan very risky."

While the Morgan plan is self-destructing, the Mexican economy has been pushed to the brink of the abyss, under the impact of the Economic Solidarity Pact (PASE), the brutal shock program demanded by Morgan in exchange for the nonexistent advantages of its "zero bond" debt plan. The PASE, in fact, exploded punctually at the end of January, in precisely the way *EIR* had warned it would when the Pact was first unveiled in mid-December: through the vulnerable flank of the Mexican internal debt.

On Jan. 29, central bank director Miguel Mancera Aguayo announced that the daily devaluation of the peso with respect to the dollar would be renewed, to the tune of three pesos a day. With that decision, the government of President Miguel de la Madrid spits in the face of the Mexican people, since one of the key points of the PASE was supposed to be to keep imports cheap so as to contain the hyperinflation that is eating away the wages of the working population.

The reason for the measure taken is, however, perfectly clear. Internal interest rates will be kept in the stratosphere during February and March—they already surpass 156% a year—because "if this is not accepted, the resources of the Central Bank will have to be used to pay off the investors [in state bonds, which] . . . would affect international reserves." According to Mancera, reserves currently stand at $13.5 billion, while the government's internal debt—the majority of which is concentrated in Treasury Certificates (CETES)—exceeds $20 billion.

Since high interest rates are the main cancer that feeds inflation, and with it the "overvaluation" of the Mexican peso with respect to the dollar, the government has once again decided to devalue.

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