Borrowing from Peter to pay Paul

by Carlos Cota Meza

Bringing to mind the worst moments of Mexico's previous Carlos Salinas de Gortari government, the current treasury secretary announced on April 30 the sale of $1.7 billion worth of new "Global Bonds." According to the official explanation, the operation—described as a "moderate success"—involved exchanging Brady Bonds, with which $30 billion worth of Mexican foreign debt was restructured in 1989-90 and which were to come due in the year 2019, with new bonds bearing a 30-year maturity, due in 2026. This is nothing more than a desperate measure, which in no way addresses the nation's worsening financial crisis.

On Feb. 6, 1990, then-President Carlos Salinas called on all of Mexico to sing the national anthem, because with George Bush's Brady Plan, "the heavy burden of Mexico's foreign debt" had been eliminated. The operation at the time involved the renegotiation of $30 billion worth of Mexican foreign debt. The Mexican government agreed to buy $7.1 billion worth of zero coupon bonds from the New York Federal Reserve, capitalized at an interest rate which by the year 2019 would add up to the entirety of the renegotiated debt. The bonds were called "collateral."

Six years later, with the exchange of the Brady Bonds for Global Bonds, what the Mexican government hopes to accomplish is to use the "collateral" of the former, which represents nearly $8 billion, to help it meet 1996 payments on its short-term foreign debt of $7 billion. With the $1.7 billion swap operation, $650 million worth of Brady "collateral" will be released, and a "savings" of $170 million registered in the budget's category for foreign debt payments. This $820 million will be used to make payments on the short-term foreign debt.

The fact is that the Global Bonds have no more "collateral" behind them than the commitment of the Mexican government to pay them. Any new issues of those bonds will be at a term of ten years, and requiring payment of interest rates triple those paid by U.S. Treasury bonds, whose current rate is 7.06%. If the Global Bonds sold on April 30 are to pay a dollar-denominated interest of "only" 12.4%, which is 5.52 percentage points higher than U.S. interest rates, experts estimate that Mexico will have to offer interest rates of up to 20% to attract enough capital to replace its Brady Bonds.

And that's not all. One-quarter of the $1.7 billion worth of Global Bonds ($425 million) was bought by Mexican banks. With what money? Based on what arrangements? And then they claim to be offended, when someone says that Mexico's banks are one immense drug-money laundry!

These same banks are absolutely bankrupt. On April 30, the government concluded a "judicial truce," as part of its Debtors Support Agreement, which only proved that the agreement was a failure. Now, the Mexican government is announcing a new program for restructuring mortgage, industrial, and agricultural debts. According to the New York-based firm Securities Auction Capital, Mexico's total non-performing debt amounted to 48.5% of total debt, the highest index in the history of Mexican banking.

A "second round" of bank rescues on the part of Fobaproa, the Mexican version of the U.S. Federal Deposit Insurance Corp., has just been announced. Banco Serfin, Mexico's third largest bank, will be the first to go into this "second round." It will be selling its debt portfolio to Fobaproa for 19.8 billion pesos, which is more than twice the 8 billion pesos which the federal government allocated to the Grain Production Assistance Program, to help deal with the food emergency.

Serfin's owners have stated that once the arrangement with Fobaproa is finalized, they will be "associating" with foreign investors which could be, it is rumored, George Soros's Quantum Fund or Fidelity Fund. These funds are also interested in Carlos Slim's bank, Inbursa. Slim is the owner of Teléfonos de México. Fidelity and Quantum Funds were the principal holders of *tesobonos* (dollar-denominated Mexican government Treasury bonds), for which the Zedillo government had to pay, in 1995, with the blood of the Mexican people.

Enter: Nicholas Brady

There is something very disturbing politically in all these "financial" arrangements. On Feb. 5, Carlos Salinas and George Bush met with former U.S. Treasury Secretary Nicholas Brady, in Brady's vacation home in the Bahamas. On April 16, Salinas appeared at a meeting of the board of directors of Dow Jones, in New York. On April 24, Brady travelled to Mexico to wind up the purchase of 2.5% of the stocks of the Banorte financial group, nominally owned by Roberto González Barrera. With that purchase, Brady won the main seat on the group's board of directors.

González Barrera (a former partner of Carlos Hank González, the agriculture secretary in the Salinas government, and of Raúl Salinas Lozano, father of Carlos Salinas) controls the Mexican corn market through the company Maseca, whose 1996 imports are expected to be 5 million tons. Thirty percent of the company was recently acquired by Archer Daniels Midland, which controls the U.S. corn market and is a leading financial backer of Presidential candidate Bob Dole (R).

Brady's descent upon Mexico was in his capacity as president of the Darby Fund, whose specialty is intervening in emerging markets, and which is a principal "captor" of Brady Bonds. Thus, it would appear that the exchange of Brady Bonds for Global Bonds is not with the "world capital market," but with Nicholas Brady in person!