Debt Frauds Threaten Mexico With Default

by Ronald Moncayo Paz and Gretchen Small

Will foreign banks soon be moving to seize Mexican assets abroad, as they are trying to do against Argentina?

Suddenly, Mexican media have begun discussing what *EIR* has been reporting for a long time: Mexico is as bankrupt as everyone else. In mid-July, the bankers' boys began reminding Mexico that should it default on *any* foreign debt, cross-default clauses will be activated, under which creditors can call in all the nation's debt; that is to say, they can demand immediate payment in full. And, since the government could in no way cover all the debt, national Mexican assets abroad could be seized in lieu of payment, various columnists pointed out.

One of those bankers' boys, Mexico's University of Chicago-trained Treasury Secretary, Francisco Gil Díaz, recalled the specter which terrifies everyone: the total collapse of Argentina's banking system followed by national default in 2001, and today's drive by the vulture funds to collect every last penny out of the bones of dead Argentines. Gil Díaz declared ominously on a July 17 television program that Mexico is already in a process of "Argentinization"—and the only way to stop it is to meet our debt payments, he threatened.

The $100 Billion Robbery

Of immediate concern, are the private bank bad debts which the Mexican government assumed after the 1994-1995 financial blowout—a bailout which has ballooned to $100 billion by today. Because Mexico's banks are almost entirely foreign-owned today—82% of their assets are foreign controlled (see *EIR,* July 2)—the government's bank bailout debt is now, largely, de facto foreign debt.

Congressional demands that the next phase of the bailout not proceed until a full audit be done of the bank debt swindle, led to the current round of threats. A brief history is called for.

In 1995, the government assumed the bad debt of the entire Mexican private banking sector, issuing, in exchange for the non-performing assets, *interest-bearing* "FOBAPROA bonds," the which are today the largest source of income for Mexico's few remaining banks. It's been quite a deal for the banks: The government issued almost 100 billion pesos in bonds (about $9 billion today) to buy the bad debt in 1995; in the last five years alone, the banks have collected 157 billion pesos ($14.3 billion) in interest on those bonds; and today the government still "owes" the banks 223 billion pesos (over $20 billion). A classic case of "bankers' arithmetic": 100–157 = 223.

The FOBAPROA bonds, however, were not officially included in the public debt, but rather became part of what is euphemistically called the government's "contingent debt," where Congress has to expressly allocate the money for payments on the bonds every year. As far as the banks are concerned, this was not a very secure arrangement in the midst of global financial breakdown, especially as Mexico's Congress has stubbornly defended the principle that sovereign national rights override financier claims, when it comes to the nation's energy resources, at least.

In 1999, FOBAPROA was replaced by the Institute for Bank Savings Protection (IPAB), which took over FOBAPROA's assets. Its alleged purpose was to ensure that, by the year 2005, the FOBAPROA bonds would either have been securitized (traded on a secondary market), or paid off by collections on the defaulted debts. None of that occurred, of course, and so the bankers are now demanding that the planned exchange of FOBAPROA bonds for IPAB bonds proceed immediately. The trick is, that the IPAB bonds are to be counted as part of the official public debt, and thus get paid without special approval by Congress.

And so a showdown has arisen. The opposition parties which dominate Congress maintain that the government should not make payments on defaulted bank debt found to have been fraudulent. The bankers, after "confessing" to some $800 million in insider loans and other illegal activity, insist that further questioning of the loans would call into question the banking system itself, and payments have to go ahead. A shaky agreement to allow a "limited audit" has apparently been reached, but the devil is in the details.

Accounting Tricks Only Go So Far

All of this jockeying, however, runs up against the hard, cold reality that the Mexican government cannot actually service it's whopping public debt. The FOBAPROA boondoggle is only part of the story.

As *EIR* has been reporting for years, Mexico's *official* public debt is only the tip of the iceberg. For the year 2002, that official portion was 825 billion pesos. The FOBAPROA debt was an additional 714 billion. Then there was a staggering 816 billion in so-called "Pidiregas" obligations—government IOU's issued to (principally) foreign companies who are purportedly contracted to build electricity plants or other infrastructure—which are also part of the "contingent" debt. And there is some 131 billion pesos in other similarly hidden debt.

The grand total, as of 2002, was 2,487 billion pesos (some $225 billion at today's exchange rate). This is *more than three times the official public debt!* Any wonder that Mexico's creditors are worried that their cash cow might give out on them? Any wonder that they are now talking about activating "cross-default clauses," so that they can pick over the corpse of the Mexican economy, like the vultures that they are?