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Mexico's domestic debt has increased to more than $50 billion, compared to less than $23 billion only two years ago, according to the New York Times. Government statistics indicate that payment on the domestic debt costs the Mexican economy more than foreign debt service. In early 1988, inflation was running at nearly 180% per annum. At that time, annualized interest rates on 28-day treasury certificates (Cetes) were just over 150%, meaning the government benefitted from negative interest rates. In contrast, inflation in the past year has been less than 20%. The government had to offer interest rates of more than 56% during its last auction of treasury certificates in May. In a letter to the International Monetary Fund in April, Finance Minister Pedro Aspe said, "The continued decline in inflation should reduce domestic interest payments to the equivalent of 9% of gross domestic product." Meanwhile, government projections made public this week, estimate that 11.1% of GDP will go to internal debt interest payments, a difference of more than $3 billion. The government says it plans to devote another 18% of national production to payment of principal on the internal debt. Nearly half the Mexican government's total 1989 budget has been set aside for payments on the domestic debt. This proportion could increase if interest rates rise in the next few weeks. Mexico's tax collection system is inefficient, and tax evasion is a constant. Recently, the Salinas administration imposed a 2% net assets tax on businesses and attempted to improve collection methods. Conservative economist Luis Pazos told the Times: "The main problem facing the Mexican government is not the interest due on the foreign debt, but payment of the interest due on the internal debt. If something is not done about this quickly, we are going to see the economy turn into Argentina or Brazil. Fresh money from abroad can only postpone the day of reckoning, not solve the problem." Pazos is a professor of economic theory at the National Autonomous University of Mexico (UNAM). According to Hugo Margain, former finance minister and ambassador to the US, "Interest rates have to be high to keep money from fleeing the country. Some of my American friends tell me they have accounts in pesos here because they can earn a return much higher than they could ever dream of in the United States." An unidentified senior government official told the Times that because there is an "extremely close linkage between the foreign and domestic debt," advisers to President Carlos Salinas de Gortari expect that a deal on the foreign debt will also bring relief on the internal front. This week, Mexico's major business newspaper, El Financiero, said, "The Mexican economy has entered a race against time, in which it is strongly pressured by the unprecedented level of internal interest rates, which place government finances in a situation of extreme fragility." The newspaper noted that 75% of domestic savings have now been funneled to "documents of extremely short term, 72 hours at the most." The most commonly heard view on the domestic debt problem is that Mexico's situation is not much different from that of other countries, and that the debt is manageable. Margain said, "The domestic debt is less conflictive than the foreign debt because it is ours, it's in the family, and we can do whatever we have to do, with fellow Mexicans. It shouldn't exceed certain limits, but it does not rob me of my sleep the way the foreign debt does." Pazos disagrees. He said in contrast to the foreign debt, the government cannot declare a moratorium or renegotiate the internal debt: "The only options are to print more money or let the debt grow, and that is a promise of inflation." He favors selling off state-run enterprises to repay the domestic debt. Mexican officials argue that they have reduced the weight of the domestic

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debt because the government has achieved a significant primary surplus, before debt payments are subtracted, expected to be the equivalent of about 7% of GDP this year. According to some independent economists, this achievement exacted a high social cost. According to a leading private sector economic consultant, Rogelio Ramirez de la O, "That surplus has been achieved with the blood and sweat of the poor, because government spending has been cut to the bone to meet targets. And who gets paid? The very rich and the large corporations, the ones who can afford to buy the Cetes." (Basic data from New York Times, 06/05/89)

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