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LADB Staff

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In a special report published on Sep. 18, the daily newspaper La Jornada said Mexico's total public and private foreign debt has grown to about US$175.6 billion, an increase of 84% from the US $95.5 billion reported at the end of 1989. According to the report, about US$93 billion of the debt is owed by government entities other than the Banco de Mexico (central bank). The central bank owes another US$14.1 billion to the International Monetary Fund (IMF), while the remainder of the debt is divided into three categories: domestic debt held by foreigners, debts owed by private commercial banks, and debts incurred by private companies. The report warned that unless the Mexican government is able to reverse the growth of the debt, Mexico could face a situation similar to the one faced in December 1994, when a sharp decline in foreign reserves forced the government to devalue the peso.

The article strongly advocated a renegotiation of Mexico's debt, arguing that the government's ability to promote growth was being stifled by both the debt itself and by service of the debt. "By incurring a debt of this size we are mortgaging all the goods and services produced in our country during the course of one year," said the report's author, economist David Marquez Ayala. He estimated that the total debt of US$175.6 billion is equivalent to 91% of Mexico's GDP for 1995. Recent reports produced by multilateral organizations have also warned of the dangers for the Mexican economy if President Ernesto Zedillo's administration does not take steps to reduce its heavy debt. For example, the UN's Economic Commission for Latin America (CEPAL), in a report released in mid-September in Santiago, Chile, said the increase in the debt means that Mexico this year will have to pay about 60% more in real terms for interest payments relative to payments in December of 1994.

The CEPAL report said the economic crisis that followed the devaluation of the peso forced the Mexican government to reduce spending by about 6% in real terms, which translated to a 34% reduction in the government's direct investment. According to CEPAL, the reduced expenditures will contribute significantly to a decline of 5% in Mexico's GDP this year. A separate report issued in Geneva during September by the UN Commission on Trade and Development (UNCTAD) also warned the Zedillo administration not to embark on a policy of "deflation through debt." The report blamed the devaluation of the peso and the resulting economic crisis in Mexico on "overreliance on the inflow of private foreign capital to finance the country's balance of payments."

Indeed, in a meeting with US investors in New York in mid-September, Finance Secretary Guillermo Ortiz said the growth in the foreign debt remains a strong concern that the Zedillo administration is attempting to address. He acknowledged that the heavy debt, along with the government's strict economic austerity measures and high interest rates, were partly to blame for Mexico's disappointing economic performance in the first half of the year, which resulted in a GDP decline of 5.8% in January-June. On the other hand, Ortiz said the Zedillo administration

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has retired many of the short-term obligations that matured this year, meaning that much of the remaining debt involves long-term instruments. Because of this, he said, the Mexican economy is in no immediate danger of facing the same collapse that led to the devaluation of the peso in late 1994. Ortiz said many of the obligations due to mature in the near term are loans obtained via the emergency economic package put together by US President Bill Clinton's administration and the International Monetary Fund (IMF) earlier this year (see SourceMex, 02/01/95).

A report issued in conjunction with President Zedillo's state of the union address on Sep. 1, showed a breakdown of Mexico's debt obligations, which indicated that only 4% of the total is due to mature in the next year. Of the balance, 30.3% matures in the year 2019, while another 69.7% comes due over a 34-year period. Of the total debt, 29.7% is owed to the US, 20.6% to multilateral institutions, 15.3% to Japan, 9.4% to Great Britain, 5.2% to France, and 3.7% to Canada. Mexico also owes debts to Switzerland, Spain, Italy, and 35 other countries. Ortiz said the administration would place a high priority on restructuring the repayment schedule for these obligations, which were used to pay off maturing Treasury bonds and certificates.

Reports in US and Mexican newspapers had suggested that Ortiz was attempting to renegotiate Mexico's foreign debt. But the finance secretary told reporters that discussions with lending institutions focused only on rolling over rather than renegotiating the debt. Yet, many financial analysts are skeptical that Mexico can afford to handle its debt situation without some sort of renegotiation, which would include a reduction of interest rates and principal based on the country's ability to pay. By merely rolling over debt payments, they said, Mexico would have to accept the prevailing interest rates. Ortiz also told the investors at the meeting in New York, which was organized by the financial services company J.P. Morgan and Mexico's foreign trade bank (Banco Nacional de Comercio Exterior, Bancomext), that the Mexican government will be paying off about US$21.8 billion in maturing obligations in 1996, about 60% less than during 1995.

Additionally, Ortiz said the Zedillo administration is considering a plan to issue new short-term certificates in the near future. However, he said any issues will only total about US$4 billion. On a related matter, sources at the Finance Secretariat (SHCP), said the Zedillo administration is designing a new financial instrument similar to the existing Treasury Bonds (Tesobonos). The sources said the new instrument, which has not yet received a name, will be indexed to the US dollar. The instrument is due to be issued sometime at the beginning of 1996, when all current Tesobono obligations are retired. [Sources: Review of the Economic Situation of Mexico (Banamex-Accival), 09/95; Notimex, 09/03/95; La Jornada, 09/11/95, 09/15/95; Excelsior, New York Times, Reforma, 09/19/95; Agence France-Presse, 09/10/95, 09/15/95, 09/18/95, 09/20/95; El Financiero International, 09/25/95]

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