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In late July, the Mexican government announced an early repayment of US$7 billion to the US Treasury and another US$1 billion to the International Monetary Fund (IMF) for loans obtained to help bail out the Mexican economy after the devaluation of the peso in late 1994. The amount of money repaid to the US Treasury erases more than three-quarters of the debt owed by Mexico to the US for a loan of US$12.5 billion.

The debt formed part of a total US$20 billion in guaranteed credit that the US had made available to Mexico through an international rescue package put together by US President Bill Clinton's administration in early 1995. In addition to the US funds, Mexico received access to US$10 billion from the European-based Bank for International Settlements (BIS) and almost US$20 billion from the IMF (see SourceMex, 02/22/95). In April of this year, Mexico managed to pay off about US$2 billion of its US$12.5 billion debt to the US, reducing the total debt as of July of this year to US$10.5 billion. The Zedillo administration raised the funds to make this payment through the issue of 30-year dollar-denominated bonds (see SourceMex, 04/24/96).

Mexico had originally intended to raise another US$4.7 billion from bond issues in June of this year to meet a scheduled payment to the US in July. However, market analysts said demand for the government bond issues was so strong that Mexico was able to raise enough funds to make a payment of US$7 billion. Financial analysts said demand for Mexico's five-year bonds increased significantly after the US-based rating agency Standard & Poor's (S&P) gave them investment grade status in June. The analysts said the bonds, originally issued on June 18, were already attractive because of improving international confidence in the country's economic recovery as well as backing from the government's vast oil revenues.

The payment of US$7 billion means that the debt owed to the US will be reduced to US$3.5 billion. This raised the possibility that Mexico could retire its debt to the US earlier than expected, perhaps in 1997. Under the previous repayment schedule, Mexico was due to make payments to the US through 1999. Mexico's US$1 billion payment to the IMF will be derived from 10-year Samurai bonds issued on the Japanese market in mid-May (see SourceMex, 03/20/96). With the payment of US$1 billion to the IMF, Mexico reduced its debt to that institution to US$14 billion. The SHCP emphasized that the payments to the US and to the IMF totaling US$8 billion will not tighten Mexico's reserves of foreign currency, which currently stand at US$15.5 billion. In fact, foreign reserves are about US$5 billion more than in mid-1995, when reserves stood at about US$10 billion.

According to the SHCP, Mexico will reduce its interest payments because the annual financing cost of the US and IMF loans will drop from an average rate of 9.89% to 8.12% as a result of the refinancing scheme. That, in turn, will save the Treasury approximately US$125 million a year. The Mexican government's early repayment will likely help President Clinton's reelection campaign.

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Clinton, who came under fire for his decision to use funds from the US Treasury to bail out the Mexican economy, can now use the Mexican government's repayment to counter critics of the bailout, which were led by Sen. Alfonse D'Amato (R-NY), ultra- conservative Republican leader Pat Buchanan, and the Reform Party's likely presidential candidate Ross Perot. "The big winner here is Clinton and the Clinton government, far more even than Mexico and the Mexican government," said analyst Jonathan Heath of the financial consulting company Macro Asesoria Economica in Mexico City. As expected, key members of the Clinton administration were extremely pleased with the Mexican government's repayment. "I would not have thought this possible when we entered the agreement in 1995," said US Treasury Secretary Robert Rubin. "I am delighted we got the money back."

In fact, the US came out ahead financially, since the high interest rates charged to Mexico brought a net US$500 million to the US Treasury. The move, in effect, means that the Mexican government will be transferring debt from the US government to private investors. Still, Mexican officials said this was beneficial from a political standpoint. "We would much rather owe to the markets than to the U.S. government," one Mexican official told the New York Times. Revenues from exports of crude oil remain as collateral for the balance of US$3.5 billion in debt owed to the US.

Zedillo's willingness to place the revenues as collateral in the first place proved to be a controversial politically. The early repayment sharply reduces the chances that Mexico will have to surrender the oil revenues, which also helps Zedillo. More importantly, analysts said the strong interest in the bonds showed renewed confidence in the Mexican economy by foreign investors. "This bond issue is an indication that the capital markets recognize the improvements in the economic fundamentals in Mexico," said Isabel Saltzman, a specialist on emerging markets for the Boston-based company Scudder, Stevens & Clark. Saltzman said the bonds issued by the Mexican government offer a greater value than similar instruments offered by countries such as Poland and Indonesia. "Mexico has resolved its monetary crisis in a commendable manner," said financial analyst Stephen Lockman of Stein Roe & Farnham. "We must offer credit to those countries that deserve it."

Despite the optimistic assessments, however, the Mexican economy has yet to show the sustained economic growth originally projected by the Zedillo administration earlier this year. Overall, Mexico's GDP growth remained relatively slow in the first six months of this year, but the Zedillo administration continues to project a 3% growth rate for 1996. To achieve that, GDP growth in the second half of the year will have to be especially strong. In an editorial at the end of July, the daily business newspaper El Financiero challenged the Zedillo administration to use the current economically stable climate to address the most pressing social needs in Mexico. "It is imperative that the government use the economic recovery to create programs that will reduce the social costs caused by the economic crisis," the newspaper said. In addition to addressing poverty, El Financiero International urged the government to offer direct and indirect support to the productive sector. [Sources: Review of the Economic Situation in Mexico (Banamex-Accival, 07/96); Agence France-Presse, Associated Press, 07/25/96; La Jornada, The News, Excelsior, New York Times, 07/26/96; Novedades, El Financiero, 07/26/96, 07/29/96; El Financiero International, 07/29/96]

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