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Mexico to Hold Monthly Auctions to Boost Reserves of Foreign Exchange

by LADB Staff

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In early August, the Finance Secretariat (SHCP) announced a new mechanism to increase the country's reserves of foreign currency through the purchase of US dollars from private banks at monthly auctions. The auctions which will be conducted by the Banco de Mexico (central bank) will be held on the last full workday of the month, except for the initial auction, which took place Aug. 7.

Through the auctions, the central bank's goal is to purchase US\$130 million per month from private banks, for a total of US\$1.5 billion through July 1997. The rate paid for the foreign reserves will be determined by averaging interbank exchange rates for the previous 20 workdays. "Our net reserves are still low and we want to build them up over time," an SHCP spokesperson told reporters.

As of mid-May of this year, the central bank's foreign reserves stood at about US\$16 billion, compared with about US\$10 billion in mid-1995. The central bank's new scheme for intervention in the currency markets has raised some concerns about the impact on the value of the Mexico peso versus the US dollar. A Banco de Mexico official, however, said any impact will be minimal. "This mechanism won't have an impact on market volatility," he said, adding that the auctions will only involve a total of US\$130 million per month, compared with daily transactions in the peso-dollar market involving as much as US\$5 billion. An essential restriction on the new mechanism is that the peso must be rising in value against the dollar.

In turn, banks will gain the opportunity to sell dollars to the Banco de Mexico at a profit, provided that the peso is rising in value against the dollar. The Banco de Mexico official was optimistic about the plan, saying, "We are expecting an influx of dollars." The central bank left open the possibility that the amounts purchased at the auctions could change. "We do not want to put undesirable pressure on the foreign-exchange markets," the bank and the SHCP said in a joint statement. "We also do not want to engage in any transactions that could be interpreted wrongly by the financial markets." The central bank's decision to hold the auctions was received well by the private sector.

According to a spokesperson for Grupo Serfin, one of the more tangible benefits of the auctions is that the central bank's transactions in the currency market will be open to scrutiny by the general public. "This will remove the veil of mystery from the so-called dirty market interventions," said the Serfin spokesperson. Similarly, Adan Rivera, vice president of the national association of manufacturers (Asociacion Nacional de Industriales de la Transformacion, ANIT), said the process allows the Mexican public to scrutinize how much money the central bank enters or withdraws from the foreign exchange market. (Sources: Agence France-Presse, Novedades, El Financiero, Excelsior, La Jornada, The News, 08/02/96)

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