

1-22-1997

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LADB Staff

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Recommended Citation

LADB Staff. "Mexico Fully Repays U.S. Government for 1995 Emergency Loans." (1997). <https://digitalrepository.unm.edu/sourcemex/3686>

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Mexico Fully Repays U.S. Government for 1995 Emergency Loans

by LADB Staff

Category/Department: Mexico

Published: 1997-01-22

In mid-January, President Ernesto Zedillo's administration announced the early repayment of US \$3.5 billion in loans and credit guarantees that it owed the US government as part of the emergency bailout package that Mexico received in February 1995. With this latest payment, Mexico has now completely retired its debt to the US, although it still owes substantial sums to other lending sources that provided funds during the 1995 financial crisis. The financial bailout became necessary after the Zedillo administration was forced to devalue the peso in December 1994 (see SourceMex, 01/04/95 and 01/11/95).

In an effort to help Mexico overcome the economic crisis that followed the currency devaluation, President Bill Clinton engineered an emergency package of loans, which included US\$20 billion from the US Treasury, US\$17.8 billion from the International Monetary Fund (IMF), and US\$10 billion from the European-based Bank for International Settlements (BIS) and other sources (see SourceMex, 02/01/95). Of the total US\$20 billion offered by the US, Mexico used only US\$13.5 billion. The January payment of US\$3.5 billion fully retired that debt.

In a press conference, Finance Secretary Guillermo Ortiz and Banco de Mexico (central bank) governor Miguel Mancera said the early payment will reduce the country's interest payments by about US\$100 million per year. "The early repayment is very good news because the government has eliminated the problem of maturing short-term debt, which was the main reason for the economic crisis of 1994," said financial analyst Bruno Maquiavelo of the Mexico City office of brokerage company BBV-Latinvest. Mexico obtained funds for repayment of the debt through the issue of long-term bonds on international markets over the past several months. The bonds were denominated in Japanese yen and European currencies (see SourceMex, 03/20/96, 05/22/96, 09/18/96, and 11/13/96).

The final repayment of the debt was advantageous for the Zedillo administration from a political standpoint, since Mexico is no longer obligated to use revenues from oil exports as collateral for the US loans. Under the original agreement with the US, Mexico was obligated to deposit the revenues in an escrow account at the US Federal Reserve branch in New York (see SourceMex, 02/01/95).

Partial payment also made to the IMF

In addition to the payment to the US, the Zedillo administration also repaid another US\$1.5 billion to the IMF. The Zedillo administration was quick to point out that the payment sent to the IMF was also ahead of schedule, thus reducing interest payments. Instead of having to pay the multilateral institution US\$3.2 billion in loans maturing in 1998, Mexico will only have to pay US\$1.7 billion at that time.

However, Mexico still owes US\$11.6 billion of the US\$17 billion it borrowed from the IMF during the crisis. According to Ortiz, Mexico is engaged in discussions with the IMF on a further extension of debt payments scheduled over the next three years, especially the US\$5.9 billion due in 1999.

US praise offset by criticism from domestic opposition

In Washington, President Clinton and Treasury Secretary Robert Rubin expressed strong satisfaction about Mexico's decision to repay its debt to the US ahead of schedule. "Some said that we should not get involved, that the money would not be repaid, that Mexico should fend for itself," Clinton said at a press conference, referring to strong opposition at the time among US legislators and other influential politicians. "They were wrong." In fact, because of the strong reluctance of Congress to provide bailout loans, Clinton dipped into funds from the US Federal Reserve's emergency currency-stabilization fund. "We had to act to prevent the crisis from destabilizing our third largest trading partner, spreading to other emerging markets...and threatening the sales of goods and services that generate jobs for American workers," Clinton said.

According to Rubin, the US actually obtained US\$580 million in interest payments from Mexico for the loan. Still, some political observers criticized the Zedillo administration for exaggerating the importance of the repayment. Critics said the administration was placing greater importance on macroeconomic factors and taking very little action to combat widespread poverty, which has triggered growing social unrest. "Those of us who have a different opinion than government officials and politicians pose two questions," said columnist Ernesto Julio Teissier of *Diario de Yucatan*. "The first question is: Where did a country as poor as ours obtain such a large amount of money? The second question is: Did the government make the payment before or after ensuring that the vital needs of citizens were met?"

The Zedillo administration's action also came under strong criticism from the opposition Democratic Revolution Party (PRD) and the National Action Party (PAN). Leaders of both parties said the early repayment is a ploy to create a favorable opinion of the governing Institutional Revolutionary Party (PRI) ahead of the upcoming congressional and state elections in July 1997. "The pre-payment will have no direct benefit to the citizens of Mexico, who continue to suffer from high unemployment and high taxes," said Agustin Navarro, the PAN's director of international issues. (Sources: Associated Press, 01/15/97; Reuter, 01/15/97, 01/16/97; Siglo XXI, The News, El Universal, Washington Post, El Nacional, Notimex, El Economista, 01/16/97; El Diario de Yucatan, 01/17/97; Novedades, Excelsior, La Jornada, 01/16/97, 01/17/97; New York Times, 01/16/97, 01/18/97)

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