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Mexico Receives Multilateral Loans to Stabilize Economy Before 2000 Elections

by LADB Staff
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In mid-June, Finance Secretary Jose Angel Gurria Trevino announced that the Mexican government had obtained US$23.7 billion in international credits and refinancing to protect the country from financial turmoil during and immediately after the 2000 presidential and congressional elections. The package of credits, which Gurria referred to as "economic armor," includes US$16.9 billion in credits from multilateral institutions.

The total includes a standby loan of US$4.2 billion from the International Monetary Fund (IMF), plus credits of US$3.5 billion from the Inter-American Development Bank (IDB) and US$5.2 billion from the World Bank. The US and Canadian governments provided another US$6.8 billion in credits, including US$4.2 billion from the US Export-Import Bank. Some of the credits had been announced in early May (see SourceMex, 1999-05-05).

Gurria told reporters that the Mexican government will not draw on the credits unless necessary. "We don't have to use them, but it is reassuring to know they're available," said Gurria. "It lets us sleep better at night." Guillermo Ortiz Martinez, chief governor of the Banco de Mexico (central bank), said the availability of the credits will help protect Mexico against a repeat of the economic depression that followed the devaluation of the peso in 1994.

A series of political crises, including the uprising of the Ejercito Zapatista de Liberacion Nacional (EZLN) in Chiapas and the assassination of presidential candidate Luis Donaldo Colosio, led many investors to decide not to roll over their short-term debt. This caused Mexico's foreign reserves to plummet significantly, requiring a bailout from the US and multilateral institutions (see SourceMex, 1995-01-04 and 1995-03-15).

Ortiz emphasized, however, that economic conditions this year are much different than in 1994 when much of Mexico's indirect foreign debt was short-term financial instruments. Opposition parties question motivation and timing of loans Major opposition parties have strongly criticized the latest deal with the IMF.

Leaders from the center-left Partido de la Revolucion Democratica (PRD) and the conservative Partido Accion Nacional (PAN) raised concerns that the IMF may have imposed strict conditions in exchange for its standby loan. PRD Sen. Mario Saucedo Perez questioned whether the IMF approved the standby loan in exchange for a promise from President Ernesto Zedillo's administration not to abandon its push to privatize the Comision Federal de Electricidad (CFE) and Luz y Fuerza del Centro (LFC), the country's two largest electrical utilities.
The administration’s proposal to privatize the CFE and LFC has met strong resistance not only from the PRD but from several members of Zedillo’s governing Partido Revolucionario Institucional (PRI). The government's privatization proposal could be considered in the fall legislative session (see SourceMex, 1999-04-28). Guanajuato Gov. Vicente Fox Quesada, considered the PAN’s likely presidential candidate, criticized the administration for using the assistance from the multilateral institutions and US and Canadian governments to enhance the PRI's position ahead of the presidential elections.

Fox said the availability of the international credits could free up other resources that the government could devote to public-works projects and other programs to garner support for the PRI. Some political experts supported Fox's assertion that the international loans have strong implications for the 2000 elections. While the PRI-led administration may well increase spending on election-related programs, some economists and political observers say the impact of the credits is much more subtle.

Alejandro Nadal, an economist at Colegio de Mexico, said the availability of the credits allows the administration to place a high priority on economic growth in the near term, regardless of the long-term impact of such policies. Julio Boltvinik, a political columnist for the daily newspaper La Jornada, said a strong economy could enhance the governing party's chance for success in the elections. Boltvinik said it was no coincidence that Gurria announced the loans while simultaneously presenting the administration's targets of GDP growth of 3% in 1999 and 5% in 2000. "The majority of voters will support the party or individual most likely to serve their personal economic interests," said Boltvinik.

Some economists say credits will spur investor confidence But other economists said the Zedillo administration had no alternative but to negotiate the credits to reassure foreign investors about Mexico's commitment to reduce economic vulnerability after the 2000 election. "It is important that Mexican and international markets receive a very clear message that things will keep being supported economically so as to avoid a crisis," said Miguel Guzman Villavicencio, president of the Instituto Mexican de Ejecutivos de Finanzas (IMEF).

Some economists said, however, that the Mexican economy remains susceptible to some internal factors such as a weak banking system and the volatility that could result from a heated presidential campaign.

In addition, external factors such a predicted downturn in the US economy and the continuation of a weak oil market could cause some uncertainties among foreign investors. "As any emerging market that is a net importer of capital, Mexico will remain subject to market sentiment," said Javier Murcio, Latin America economist at Credit Suisse First Boston. (Sources: Associated Press, 06/15/99; Notimex, 06/16/99; Novedades, 06/16/99; Excelsior, 06/16/99, 06/17/99; Proceso, 06/20/99; La Jornada, 06/16/99, 06/17/99, 06/18/99, 06/24/99; Reuters, 06/16/99, 06/23/99, 06/28/99; El Universal, 06/16/99, 06/28/99, 06/29/99; El Economista, 06/28/99, 06/29/99)