10-1-2008

U.S. Economic Crisis Causes Concern in Mexico

LADB Staff

Follow this and additional works at: https://digitalrepository.unm.edu/sourcemex

Recommended Citation

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
The shaky US economy, which has been hammered by a mortgage and credit crisis, is causing more than a few jitters in Mexico, even though Mexicans are confident that their financial system is strong enough to withstand any major ill effects. The biggest worry beyond the immediate impact on the Bolsa Mexicana de Valores (BMV) is the effect that the US financial crisis will have on the availability of credit in Mexico, particularly in those cases where the lending institution is based in the US. Of particular concern are larger infrastructure projects like the planned Punta Colonet megaport in Baja California state.

There is also rising apprehension that a downturn in the US economy could result in more layoffs in the construction industry, which would further reduce already declining remittances sent by Mexican expatriates. In addition, a weak US economy could prompt US companies to reduce purchases, including imports from Mexico.

**Bolsa plunges with Dow Jones Industrial Average**
Like many financial markets overseas, the BMV was hammered by huge losses in the New York Stock Exchange (NYSE) on Sept. 15, when reports surfaced about the troubles of financial giants like Lehman Brothers, Goldman Sachs, Merrill Lynch, and AIG, and again on Sept. 29, when the US House of Representatives defeated a plan proposed by US President George W. Bush's administration and congressional leaders from the two major parties to inject liquidity into the US credit markets.

In the aftermath of the House vote, the Dow Jones Industrial Average at the NYSE fell by more than 770 points. The BMV followed this pattern with a loss of 1,638 points on its main index, its greatest loss in almost nine years. The Mexican bond markets and the peso also suffered losses because of concerns about a pending credit crunch in the US. While the NYSE and the BMV and other markets fluctuated in subsequent days amid hope that the US Congress would eventually approve a rescue package, there was lingering unease in Mexico about the possibility that the US markets could remain unstable.

For many Mexican officials, the almost schizophrenic approach of US officials to the market crisis has contributed greatly to uncertainty in the market and has boosted financial speculation. For example, said BMV president Guillermo Prieto Trevino, US authorities cannot make up their minds whether to regulate the markets. First, they say they will not save troubled financial companies, but they later push for the rescue, he noted.

Seven Mexican companies that had sought listings on the BMV have postponed those efforts because of the uncertainty in the US markets. "At this moment, we don't know which way the wind is blowing," Prieto said in reference to the conflicting policies from US financial authorities.
There is widespread support in Mexico for the US to impose greater regulation on the financial markets, as some US politicians have suggested. Mexican billionaire Carlos Slim Helu, who owns financial conglomerate Grupo Carso and telecommunications giant TELMEX, contends that the US financial and commodity markets are too open to financial speculation. "There is a high level of speculation that must be brought under control, especially involving commodities like petroleum and foodstuffs. Slim pointed out that the volatility in the markets is having way too much impact on the real economy. "I wish there were more regulation," said the Mexican billionaire.

Parallels to Mexican crisis in mid-1990s

There are some similarities between the current situation in the US financial markets and the crisis in the Mexican financial markets in 1995 following the devaluation of the peso in late 1994. In both cases, concerns about tight credit sent the markets tumbling.

In the Mexican case, the abundance of short-term instruments allowed investors to withdraw their funds rapidly (see SourceMex, 1995-01-04 and 1995-01-11). The US and multilateral financial institutions stepped in with a package of US$50 billion in loans and loan guarantees to help shore up the Mexican financial system (see SourceMex, 1995-02-22). In return for the US and international assistance, Mexico agreed to take steps to limit inflation, reduce government spending, and support the peso (see SourceMex, 1995-03-08).

The Mexican financial crisis in the mid-1990s laid the groundwork for Mexico to shore up its financial system, allowing the country to withstand both internal and external threats to its economy. Said Slim, "Mexico has elements in place to weather the current [US] crisis. We have good macroeconomic policies and a strong financial system." Slim said Mexico needs to continue its practice of giving priority to medium- and long-term capital. "Short-term capital only seeks profits," said the billionaire.

Finance Secretary Agustin Carstens echoed Slim's comments, saying that Mexico is happy not to be a central player in the international financial crisis. "Mexico has a solid financial system," said Carstens. "This is testimony to the policies that we have put in place over the past 10 years, which implemented a regulatory scheme that ensures that the banking system has a level of capitalization of 16%." Guillermo Calvo, an economist at Columbia University, said, "[This crisis] will not affect Mexico significantly because it has at this moment a relatively strong financial situation."

Congress seeks "urgent meeting" with finance secretary

The optimism of Carstens, Slim, and others has not been sufficient to ease concerns in the Mexican Congress, particularly among opposition parties. In late September, Sen. Ricardo Monreal, a member of the center-left Partido de la Revolucion Democratica (PRD), said he would request that Carstens meet with legislators to spell out what steps the government would take to avert a crisis in Mexico. "We will seek an urgent meeting with the finance secretary so we can discuss an anti-crisis plan," said Monreal.

In addition to worries about the impact of the financial market, there are strong concerns that a further downturn in the US economy could affect Mexican exports to the US and remittances from expatriates, which have declined significantly this year (see SourceMex, 2008-09-17). Deputy
Emilio Gamboa Patron, a member of the other major opposition party, the Partido Revolucionario Institucional (PRI), said legislators are ready to use the 2009 budget, which is under discussion in Congress (see SourceMex, 2008-09-17), to implement whatever steps are necessary to avert a crisis in Mexico. The Congress is required to approve the 2009 budget by Nov. 15. Some private analysts also urged Mexico not to become complacent.

Manuel Medina Mora, director of Citibank for Latin America, said the problems in the US financial system are a reminder to Mexico to ensure that there are adequate levels of credit for consumption and mortgages. "In the last 10 years, these types of credit have grown significantly in our country," said Medina. "Many families now have access to credit via credit cards, and many others have been able to finance purchases of homes."

Still, some of the demons that plague the US financial system are present in Mexico. For one, the banks' heavy promotion of credit cards has increased the debt burden for many Mexicans (see SourceMex, 2005-04-06 and 2007-03-21). And Mexico's banks, most of which are owned by foreign entities, have not always been consumer friendly.

As recently as five years ago, a majority of Mexican businesses sought loans from sources other than commercial banks because of the banking system's restrictive policies (see SourceMex, 2003-03-12). This situation appears to have changed in recent years, particularly in 2005 and 2006, when bank loans to businesses and consumers grew at a rate of about 50%. However, the banks have become more cautious this year because of the US financial crisis. A recent report from the Banco de Mexico (central bank) said loans from the Mexican banking sector were up about 11% in August relative to the same month a year ago. But the increase was smaller than it was in July, when loans were up about 14.6% from July 2007.

Infrastructure funding may suffer if credit tightens

While the US Congress is expected to eventually approve a rescue package for the US financial system, there is growing concern about the financial health of some of the players involved. "The immediate impact of the crisis is that it has closed access to international markets for many companies and even for some countries," said Calvo.

The Mexico City daily newspaper Excelsior said the financial problems of Lehman Brothers and Goldman Sachs could hamper the efforts of the Mexican government to expedite development of infrastructure projects. "One of the main effects of the situation is that the government may have difficulty finding investors who want to purchase its infrastructure bonds because of the lack of confidence in investment banks like Goldman Sachs," said Abel Hibert, an economist at Universidad Metropolitana de Monterrey.

This situation may force the Mexican government to devote more government resources toward infrastructure, which could ease the impact caused by the financial crisis. This would mean, however, that budget priorities would have to be changed in the next few weeks as the Mexican Congress debates the 2009 budget. President Felipe Calderon's administration is counting on expenditures of about US$250 billion on infrastructure projects to help boost Mexico's economy through 2012. The expenditures will not only create jobs but also result in improvements in
highways and other facilities needed to aid the transfer of goods in the country, said Economy Secretary Gerardo Ruiz.

Some critics believe the government has mishandled the plan to boost infrastructure by failing to identify the appropriate projects and allocate funding in a timely and efficient manner. There has been a deficiency in the [government's] promotion of projects," Slim told foreign reporters. "A national infrastructure commission would be a good idea....It should be made up of capable people, technically prepared people, engineers."

**Government moves ahead with magaport project**

For now, there is special concern that the US financial crisis could cause financing problems for the Punta Colonet megaport in Baja California, which the Calderon administration has proposed as an alternative to the congested ports of Los Angeles and Long Beach. Punta Colonet, near Ensenada, would be used to bring in goods from the Pacific Rim and Asia to North America (see SourceMex, 2006-11-01).

Goldman Sachs was expected to participate in the first phase of the Punta Colonet project, which would require investments of about US$5 billion to US$6 billion. The US investment bank was expected to partner with Grupo ICA to seek the concession for constructing roads leading to the Colonet port, said deputy communications and transportation secretary Oscar de Buen. Goldman Sachs and ICA have already worked together on projects to expand and modernize Mexico's highway system. The partnership has resulted in the influx of about US$44 billion pesos (US$4 billion) into infrastructure projects in Mexico.

Regardless of apprehensions about US credit institutions, the Calderon administration is pushing ahead with the Punta Colonet project, which could be in operation within three years, barring any delays. "The majority of the investment will be needed in the next three years to ensure that the port is in operation by 2012," Calderon said in late August. This is two years earlier than the 2014 date that the administration had originally envisioned. The port is expected to have initial capacity to handle about 2 million shipping containers, but the number could eventually increase to as many as 10 million. This would ease pressure on Los Angeles and Long Beach, which together handled about 15.7 million containers in 2007.

The Calderon government, which hopes to award concessions for constructing the port facilities in 2009, has already received inquiries from more than 60 companies. The Los Angeles Times reported that Slim's Grupo Ideal had forged a partnership with railroad and mining giant Grupo Mexico and New Jersey-based Ports America Group to seek the concession. As part of the project, the government is seeking bidders to construct a short rail line that would connect the port with other rail systems in the area, including the tracks operated by Union Pacific Railroad in Arizona. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 1, 2008, reported at 10.95 pesos per US$1.00.]

-- End --