3-15-1995

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LADB Article Id: 56217
ISSN: 1054-8890

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Category/Department: Mexico
Published: 1995-03-15

On March 9, Finance Secretary Guillermo Ortiz announced a package of drastic economic measures designed to address the effects of the devaluation of the peso. The package which included such unpopular steps as a sharp increase in some taxes, higher costs for gasoline and electricity, and tight restrictions on internal credit drew immediate opposition from most business organizations, labor unions, and the two largest opposition political parties. The opponents warned that the measures would increase bankruptcies, result in a sharp increase in unemployment, and create severe hardships for the vast majority of the Mexican population. Conversely, international economists and investors praised President Ernesto Zedillo's administration for "taking solid steps" to address the long-term problems of the Mexican economy.

Speaking on a pre-recorded national television and radio broadcast on March 12, Zedillo acknowledged that the plan "contains measures that will be very difficult for everyone," especially the proposed increase in taxes paid by consumers. "There is no easy or pleasant way to resolve the difficulties facing our economy," Zedillo said. However, he suggested that the measures represented a long-term solution to turning the Mexican economy around. "If we don't stop and turn around the deterioration and loss of control of the last weeks, we risk suffering a financial and production collapse that would mean the loss of millions of jobs," the president said.

Zedillo promised that if the plan is followed, "we will have completely wiped out the threat of a financial and production collapse." One of the more controversial measures announced by Ortiz was an increase from 10% to 15% in the value added tax (impuesto al valor agregado, IVA), which is basically charged to the consumer as a sales tax. Opponents warned that the increase would further reduce the purchasing power of most Mexicans and restrict economic growth. Additionally, businesses were critical of the government's plan to raise gasoline prices by 35% and electricity rates by 20%, and of the plans to reduce public spending by 10%. "If the government does not spend, then no jobs are created," a private economist told Agence France- Presse. "And if there is no job creation, then the economy does not grow."

Still another concern for the business sector was the Zedillo administration's decision to restrict the amount of money available for internal credit to US$1.34 billion this year. This restriction is intended to discourage banks from overdrawing funds from the Banco de Mexico (central bank). However, the measure will also create further restrictions in the ability of businesses to obtain loans. Many banks are already placing severe restrictions on loans because of the high rate of overdue debt and tight reserves. For their part, labor unions led by the Congreso del Trabajo (CT) and the Confederacion Mexicana de Trabajadores (CTM) raised protests about the decision to limit increases in the minimum wage to 10%. The wage is currently the equivalent of about US$2 per day. The new policy on the minimum wage is scheduled to take effect on April 1. CTM leader Fidel Velazquez told reporters that the 10% increase is far below what is needed to compensate for the

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projected rate of inflation, which the government has now forecast at 42%. A related concern raised by labor unions was the government decision to allow open negotiation by individual sector of all other contract wages, thus eliminating previous commitments by the government to guarantee a certain rate of salary increases through national-level negotiations.

In addition to the tight fiscal and monetary restrictions, the Zedillo administration announced complementary plans to help support key sectors of the Mexican economy. For example, the government announced a commitment to continue subsidies for basic products (such as tortillas, bread, and milk). Additionally, a fund of US$3 billion was established to help the banking sector address the expected increase in loan defaults. A related initiative announced by Ortiz was the creation of an US$8.7 billion fund to help reschedule debts for small and medium-sized businesses. As a result of the tough measures, the Zedillo administration made significant revisions to the economic forecast for this year, compared with projections made in early January. For example, inflation is now targeted at 42%, more than twice as high as the previous estimate of 16%.

Additionally, Finance Secretary Ortiz said the government's new GDP estimate for 1995 has been revised to project a 2% drop in GDP, compared with the previous estimate of positive growth of 1.5%. Many analysts, however, suggested that the Zedillo administration may be understating the impact of its emergency economic measures. For example, the respected economic analysis organization Grupo Expansion in its weekly newsletter Tendencias, said Mexico's GDP could decline by up to 4%, while the inflation rate could increase to 53%. Accumulated inflation for January and February was reported at 8%, a rate which does not take into account the impact of the economic measures announced by the government on March 9.

Another revision announced by Ortiz was a sharp decline in this year's forecast for Mexico's current account deficit, which is now projected at US$2 billion, compared with the previous forecast of US $14 billion. In 1994, the current account deficit had reached US$28 billion. The contraction of the deficit this year is expected to reflect a drop in the country's trade deficit, since the sharp downturn in the economy will virtually shut off imports, while the peso devaluation will stimulate exports.

Despite the widespread criticism, the economic measures announced by the Zedillo administration received some support from some economic and investment analysts. For example, in a statement issued on March 10, Stanley Fisher, the acting director of the International Monetary Fund (IMF), praised the Mexican government for taking decisive steps to address the long-term economic situation in Mexico. "The management of the IMF welcomes the substantive measures adopted by the Mexican authorities to strengthen their economic program," said Fisher. The financial markets at first reacted in a positive manner to the Zedillo plan. The peso, which had dropped to as low as 7.45 pesos per dollar on March 9, rose to about 6.3 pesos the next day after the plan was announced. Similarly, the main stock index at the Mexican Stock Exchange (BMV) rose 49 points on March 10 to 1,590 points. However, the markets became more cautious on the next two trading days, March 13-14, once investors and traders realized that the plan faces strong opposition among Mexican legislators. The value of the Mexican currency dropped to 6.4 pesos on Monday, March 13, and then to 6.6 pesos on Tuesday, March 13.

For its part, the main index at the BMV declined by 0.3% on Monday, but rose by the same rate on Tuesday. Indeed, the concerns about the possible defeat of the economic plan in the Chamber

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of Deputies and the Senate are justified. In the Chamber of Deputies, members of the opposition Democratic Revolution Party (PRD) and National Action Party (PAN) have already announced intentions to vote against the plan, which was due to be considered on March 15. "There is no reason for the majority of the population to pay for the errors committed by the current or previous administrations," said PRD president Porfirio Munoz Ledo, reflecting concerns from party members in the Chamber of Deputies.

The PAN party's national president, Carlos Castillo Peraza, suggested that the impact of the plan on society was reason enough not to support it. "I think that one of the risks of the measures announced by the government is social unrest," said Castillo in an interview published in the daily newspaper Reforma. The most significant concern for the markets, however, is the possibility that many members of Zedillo's governing Institutional Revolutionary Party (PRI) could vote against the plan, even though the PRI holds 300 of the 500 seats in that legislative body. "We will have problems if we vote against a proposal presented by a president from our own party," said one PRI deputy. "On the other hand, by supporting this plan we would be passing on the costs of government mistakes to the citizens of this country, and that could have negative repercussions in the short term."

According to some analysts, the fact that Zedillo drafted the plan without first consulting with business and labor leaders could spell the end of the recent practice of negotiated "pacts," which generally were based on promises by the private sector and labor unions to hold down inflation. "The 'pacto' is dead, and I think people are happy about it," said analyst Damian Fraser of the Barings brokerage house. "It had become an albatross." The practice of negotiated agreements was initiated under former president Miguel de la Madrid (1982-1988) and carried through the term of Carlos Salinas de Gortari (1988-1994). In fact, the first emergency economic agreement announced by Zedillo in January to deal with the devaluation of the peso was done in consultation with business and labor leaders (see SourceMex, 01/04/95).

On the other hand, the decision to leave business and labor out of the process could create political problems for Zedillo in the future. Some of those problems were already becoming apparent in the near term. For example, only two representatives of business organizations were present at the announcement of the new economic measures on March 9, as opposed to the recent practice of having virtually all leaders of business chambers present during announcements of the "pacto." One leader, Antonio Sanchez de Rivera, president of the Confederacion Patronal de la Republica Mexicana (Coparmex), was publicly critical of the proposals to raise prices for gasoline and electricity and the increase in the IVA. For his part, CTM leader Fidel Velazquez pledged to express the labor sector's strong reservations to the plan to members of the PRI during the votes in the Chamber of Deputies and Senate. (Sources: United Press International, 03/09/95; Deutsche Press Agentur, Notimex, Reuter, Spanish news service EFE, 03/10/95; Reforma, 03/09/95, 03/13/95; Agence France- Presse, 03/10/95, 03/12/95, 03/13/95; El Financiero International, Excelsior, 03/13/95; Associated Press, 03/09/95, 03/10/95, 03/12/95, 03/13/95, 03/14/95; La Jornada, 03/10/95, 03/14/95; El Nacional, New York Times, 03/10/95, 03/14/95; El Financiero, 03/14/95)

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