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## Mexico's Inflation Approaches 15 Percent in January-March 1995

by LADB Staff

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On April 7, the Banco de Mexico reported that the consumer price index (Indice Nacional de Precios al Consumidor, INPC) surged by 5.9% in March, bringing accumulated inflation for the January-March quarter to 14.54%. The relatively high rate for the first quarter of the year raised new concerns over whether President Ernesto Zedillo's administration will be able to meet its most recent target of 42% annual inflation for 1995. For that target to be met, the inflation rate would have to be limited to an average of slightly more than 3% each month from April through December. However, the strict economic emergency measures enacted by the Zedillo administration this year include higher costs for gasoline and electricity, and a sharp increase in the national value-added tax (impuesto al valor agregado, IVA). Both measures are highly inflationary.

In an interview with Reuters news service on April 7, Banco de Mexico governor Miguel Mancera Aguayo said that the increase in the IVA alone could boost the inflation rate for April to about 8%. He raised the possibility that inflation would remain almost as high in May. Assuming that inflation does indeed reach 8% in April and May, then the accumulated rate for January-April could amount to about 32%, meaning that the monthly inflation rate would have to average about 1.4% for each month thereafter for the Zedillo administration to achieve its target of 42% annual inflation during 1995. Still, in the interview Mancera expressed confidence that the austerity measures imposed by Zedillo would in the end stabilize the economy enough to sharply reduce the inflation rate in the second half of the year. For his part, economist Angel Calderon of Colegio de Mexico, told *El Financiero* International weekly business newspaper that the government's success in its efforts to fight inflation will depend heavily on monetary policy. "If the Central Bank meets its commitment not to expand credit limits, the fall in demand will force the private sector not to raise prices," he said.

Some reports indicate that the economic crisis in Mexico has indeed resulted in a sharp decline in demand for goods and services. According to Reuter news service, the lack of demand has forced many retailers in Mexico City to post signs announcing special sales, foregoing profit margins or even incurring a loss. "This is difficult for us, but if we raise prices any more we won't have any sales at all," said one clothing store owner, who is selling most of his items at a 50% discount. For his part, Fernando Lerdo de Tejada, head of the government's consumer protection agency (Procuraduria Federal de Proteccion al Consumidor, Profeco), said his office has noticed that the highest price increases are related to measures imposed by the government directly, such as the increases in gasoline prices and electricity rates. "Prices have generally not increased by as much as we had originally anticipated," said Lerdo de Tejada.

Many economists attribute the surge in inflation during March to transportation-related costs, due to the higher prices for gasoline announced on March 9 (see SourceMex, 03/15/95). The surge in inflation in March was led by a sharp increase in fares for public transportation and for

gasoline prices at the pump. Higher costs during the month were also reported for newspapers and magazines, restaurant meals, telephone service, rents, furniture, medical services and medicines, and domestic appliances. Among food items, the highest price increases were for eggs, soft drinks, rice, and meats. On a related matter, the Central Bank reported that the Producer Price Index (Indice Nacional de Precios al Productor, INPP) increased by 5.5% during March, compared with February. The accumulated INPP for the first quarter of the year was reported at 16.7%. [Sources: Financial Times (London); 03/25/95; Reuter, 03/29/95, 04/07/95; Notimex, 04/07/95; El Financiero International, 04/03/95]

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