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Zedillo's Five-Year Economic Plan Targets Annual GDP Growth of 5 Percent

by LADB Staff

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On May 31, President Ernesto Zedillo unveiled a five-year National Development Plan (Plan Nacional de Desarrollo, PND). The Plan projects a set of ambitious goals, including annual growth of 5% between 1997 and the year 2000, a significant increase in domestic savings, and the creation of as many as 1 million jobs per year. "Once the financial crisis is overcome and the economic recovery is consolidated, we will reach sustained rates of growth of over 5%," Zedillo said in a nationally broadcast press conference in Mexico City.

Zedillo's announcement was partly in compliance with the Mexican Constitution, which requires new presidents to outline plans for their six-year terms. However, political analysts said Zedillo may have also used the announcement of the plan to regain momentum lost when the value of the peso collapsed days after he took office on Dec 1. In announcing details of the plan, Zedillo also said he would continue to follow some of the economic policies instituted by his predecessor, former president Carlos Salinas de Gortari, which were to privatize government institutions and modernize the economy. At the same time, Zedillo promised to continue some of the changes he instituted earlier in the year, which was to correct the country's high current account deficit, and to promote domestic savings. A key element of the plan is to gradually boost domestic savings to 22% of GDP, compared with about 14% of GDP in 1994.

According to the daily newspaper Reforma, Zedillo's three immediate predecessors have all proposed economic development plans, and have failed to meet their targeted GDP rates. The first such plan, announced by former president Jose Lopez Portillo in 1980, had targeted an average real GDP growth of 6% per year during his term in office, but instead achieved a rate of only 3.4% per year. During Lopez Portillo's term in office (1976-1982), Mexico received a large amount of revenues for exports of crude oil, but failed to promote sustained development of the economy and instead experienced high inflation and an increase in foreign debt. For his part, the development plan of former president Miguel de la Madrid (1982-1988) targeted an average GDP growth of 5.5% per year for his term, but only achieved a rate of 0.1% per year. Similarly, Salinas de Gortari (1988-1994) targeted a growth rate of 5.7% per year, but GDP growth only averaged about 2.9%. As expected, Zedillo's plan gained support from some members of the business community, but was heavily criticized by the two largest opposition parties and by a number of economic analysts, who said Zedillo's growth targets are "unrealistic."

Some critics said the plan fails to spell out specific steps on how the Zedillo administration was going to deal with the country's growing problems of unemployment and poverty. "How are we going to be able to grow without a solid industrial base?" said political commentator Raymundo Riva Palacio. "You cannot just simply decree economic growth." Riva Palacio said Zedillo's goals are particularly unrealistic given the country's difficult economic conditions, including official forecasts that the GDP will decline by -2% this year, and that annual inflation will climb by 42% or

higher. Some private economists have forecast the GDP decline this year as high as -5.0%, plus an inflation rate of 50% or higher. For his part, columnist Carlos Ramirez of El Financiero daily business newspaper said the plan is typical of the policies followed by the Zedillo administration, which are characterized by a general lack of focus. "With the plan, Zedillo had hoped to please everybody, but in the end he will not please anybody," said Ramirez.

Analyst Alfredo Coutino of Mexico City-based Ciemex-Wefa noted that Zedillo was basing his plan to boost domestic savings on a similar model used successfully in Chile in the 1980's. Coutino said the policy of boosting savings is appropriate for the Mexican economy, but he expressed some doubt whether Mexico actually has the capacity to raise the savings rate to 22% of GDP. Political and economic columnist Sergio Sarmiento of the daily newspaper Reforma expressed similar skepticism. "Economists, businessmen, and politicians are all emphasizing the need to develop domestic savings over the long run," he said. "On the other hand, they have few ideas about what is involved in increasing savings by the rate implied by Zedillo's National Development Plan." Sarmiento suggested that any large-scale increase in savings would have to imply a sharp decline in consumption, which in the end could have some limiting impact on growth. "This reduction in consumption to promote savings could have little impact in other countries where consumer activity is already high," he said. "In our country, where consumption has been linked to recurring economic crises, such a reduction could have a dramatic impact on the economy."

Additionally, Sarmiento said the government may have difficulty convincing Mexicans to tie up their money in savings accounts because of the country's recent history of sudden devaluations and high inflation rates. Indeed, Zedillo's plan has been met with considerable skepticism among the Mexican public. For example, a public opinion poll conducted by the daily newspaper Reforma showed that 44% of the respondents said there was "little possibility" that Zedillo would meet the target's spelled out in the PND, while another 41% said there was "no possibility." The poll, published on June 4, showed that roughly 88% of the respondents expressed skepticism that the PND would ease poverty, while another 77% saw no possibility for an increase in worker salaries as a result of the plan.

Zedillo's plan is expected to easily gain approval in the Chamber of Deputies and the Senate, which are both dominated by the governing Institutional Revolutionary Party (PRI). On the other hand, members of the two largest opposition political parties have taken advantage of every opportunity to criticize the PND. "Zedillo is talking about another country, and not ours," said Democratic Revolution Party (PRD) president Porfirio Munoz Ledo. "This is not a realistic plan, we do not have the means to fulfill the targets that were set," he said. Similarly, Vicente Fox governor-elect of Guanajuato and a member of the National Action Party (PAN) criticized Zedillo for not breaking from Salinas's policies, which he said caused the current economic crisis. "The bad news is that the Zedillo administration is adopting the same policies that prevailed during the past six years," said Fox.

Some financial analysis companies suggest that the Mexican economy may indeed recover to the extent predicted by Zedillo, but not as quickly as the President has projected. For example, analysts at the Buro de Investigaciones de Mercados (Bimsa) said that the 5% rate projected by Zedillo may not come until the year 2000. Bimsa projects a GDP decline of -3% this year, followed by zero growth

in 1996, and gradual increases each year in 1997, 1998, 1999, and 2000. Given the prospect of more gradual growth, the Bimsa analysts questioned whether the Mexican economy could actually create the 800,000 to 1 million jobs per year forecast by Zedillo.

Another economic analysis organization, Consultores Internacionales, said the first sign of the extent of success of Zedillo's plan is whether the GDP rate in 1996 shows some growth, regardless of size. Analysts at Consultores Internacionales said any growth rate would be positive when measured to the expected GDP decline this year of 3% to 5%. (In general, private analysts forecast much higher declines in GDP this year than the government admits.) Despite the criticisms, members of Zedillo's cabinet and even Banco de Mexico governor Miguel Mancera Aguayo went to great lengths to staunchly defend the goals presented by the administration. "I expect that we will experience some level of growth next year, which will establish the base for sustained growth in the following years," said Finance Secretary Guillermo Ortiz. On the other hand, Ortiz cautioned that the actual benefits of the Zedillo plan to the Mexican economy may not start to become apparent until 1997.

Still, the Zedillo plan appeared to have received a strong endorsement in the Mexican financial community from key executives such as Banamex executive Alfredo Harp Helu, and Juan Gallardo Thurlow of the foreign trade organization Coordinadora de Organismos Empresariales de Comercio Exterior. Some analysts attributed steady gains in the Mexican Stock Exchange (BMV) during the two days after the plan was announced to a positive "psychological response" by investors to the Zedillo plan. On June 1, the day after the plan was announced, the BMV's main index (Indice de Precios y Cotizaciones, IPC) increased by 3.4%. The IPC gained another 1% on June 2, to surpass the psychologically important point of 2,100 points. However, other market analysts were reluctant to credit the Zedillo policy announcement for the market gains. In fact, the analysts suggested that a rally in the New York Stock Exchange in late May probably had more of an influence on the market than the announcement of the PND.

According to some analysts, the relatively positive response of the business sector to the plan may have been a reaction to the fact that no tax increases were announced. Indeed, Zedillo's announcement of the economic plan came less than a week after the administration announced that food and medicine will not be subject to the 15% value-added tax (Impuesto al Valor Agregado, IVA) announced in March (see SourceMex, 03/15/95). According to El Financiero International weekly business newspaper, the Zedillo administration abandoned the plans to tax food and medicine because of strong pressure from the retail and pharmaceutical industries. The increase in the IVA became effective for most consumer goods on April 1, but the increase for food and medicine had been postponed until Sept. 1, pending a decision on the matter. The administration's decision not to tax food and medicine is expected to easily gain formal approval in the Mexican Chamber of Deputies and Senate. (Sources: El Financiero, 05/29-31/95; Inter Press Service, Notimex, 05/31/95; Associated Press, 06/01/95; La Jornada, 05/26/95, 06/01/95, 06/02/95; Wall Street Journal, El Nacional, Excelsior, Uno Mas Uno, 06/01/95; Reuter, 06/02/95; Reforma, 05/26/95, 06/01/95, 06/02/95, 06/05/95; El Financiero International, 05/29/95, 06/05/95; Agence France-Presse, 05/31/95, 06/01/95, 06/04/95, 06/05/95)

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