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Inflation Rate Approaches 29 Percent in First Five Months of 1995

by LADB Staff

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In early June, the Banco de Mexico (central bank) reported Mexico's consumer price index (Indice Nacional de Precios al Consumidor, INPC) at 4.18% for May, as the effects of the peso devaluation and the government's severe economic austerity measures continued to have a profound negative impact on the economy. The May rate compares with an INPC of only 0.5% in May of last year, although the latest INPC represents about half of the nearly 8% rate reported in April of this year. The high April rate was partly the result of the increase in the value-added tax (Impuesto al Valor Agregado, IVA), imposed by President Ernesto Zedillo's administration on April 1 (see SourceMex, 03/15/95 and 04/12/95).

The May rate brought Mexico's accumulated inflation for the first five months of 1995 to 28.8%, creating further doubts that the Zedillo administration will be able to achieve its targeted annual rate of 42%. Many private economists have forecast Mexico's annual inflation for this year at 50% or higher. On the other hand, Banco de Mexico chief governor Miguel Mancera Aguayo and other key officials project the actual rate will not surpass 50%, even if Zedillo's target of 42% is not reached.

In early June, Mancera made some bold predictions on inflation during an address before the Bank for International Settlements (BIS) in Basil, Switzerland. He projected that the INPC would decline to between 3% and 3.5% in June and to 2% in July. If Mancera's predictions are accurate, the accumulated inflation rate for January-July would total 33.8% at best, and 34.3% at worst. This means that the INPC would have to average close to 1.6% between August and December for Zedillo's target of 42% to be met. On the other hand, the INPC could average 3% or less each of those months and still bring total annual inflation below 50%. Mancera told the BIS delegates that the reduction in inflation is an integral part of the Zedillo administration's efforts to bring down interest rates.

"There is a strong probability that nominal interest rates will continue to decline at the same time as a decline in inflation," he said. According to the Central Bank, price increases in May were led by higher costs for domestic furniture, which rose by more than 6%. Consumers on average also paid 5.8% more for medical care and medicines and 5.7% more for food, beverages, and tobacco. Increases were also reported in the cost of transportation, tuition for private schools, clothing and footwear, and housing.

Among foods and beverages, the greatest increases were reported for poultry, bread, liquor, fruit, cooking oil, tortillas, coffee, rice, fish, and chile peppers. Indeed, the index for the basic basket of consumer goods during May increased by 3.6% relative to April. The inflation report was based on a survey of 46 cities. In these cities, the highest increases were reported in Tlaxcala, Queretaro, Durango, Guadalajara, and Mexico City. The Central Bank reported that inflation for the 12-month period ending in May 1995 reached 34.15%. As for the Producer Price Index, the Central Bank reported an increase of 4.14% for May relative to April. The accumulated rate for producer prices

this year is 32.39%. (Sources: El Financiero International, 06/05/95; Agence France-Presse, Reuter, 06/08/95; Deutsche Press Agentur, El Norte, La Jornada, 06/09/95; Reforma, 06/09/95, 06/12/95)

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