

7-12-1995

## Inflation Eases Gradually After Economy Absorbs Impact of Value-Added Tax

LADB Staff

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

---

### Recommended Citation

LADB Staff. "Inflation Eases Gradually After Economy Absorbs Impact of Value-Added Tax." (1995).  
<https://digitalrepository.unm.edu/sourcemex/3468>

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](mailto:amywinter@unm.edu).

## **Inflation Eases Gradually After Economy Absorbs Impact of Value-Added Tax**

*by LADB Staff*

*Category/Department: Mexico*

*Published: 1995-07-12*

According to the Banco de Mexico (central bank), the consumer price index (Indice Nacional de Precios al Consumidor, INPC) increased by 3.17% in June, a small decline relative to the 4% rate reported in May, but a huge drop from the 8% figure recorded in April. According to economists, the INPC was able to decline gradually over the past two months after the economy had absorbed the effects of the increase in the national value-added tax (impuesto al valor agregado, IVA), which was raised to 15% from 10% on April 1. The June rate of 3.17% was close to forecasts by private and government economists, who had projected a rate of 3% to 3.5%. In a statement accompanying the June INPC report, the Central Bank emphasized that the June rate was the lowest monthly inflation figure so far in 1995 and the second consecutive decline.

The June INPC brought the accumulated rate for January-June to 32.9%, creating further doubt that President Ernesto Zedillo's administration will reach the targeted annual rate of 42% forecast for this year. Earlier this year, the Zedillo administration had hinted that the annual inflation target for 1995 would have to be revised, since the 42% goal no longer seems attainable. The monthly INPC would have to average 1.5% during July-December to meet the target. Based on accumulated inflation of almost 33%, the monthly average for January-June is about 5.4%. According to the report, the increase in the INPC in June was mostly the result of higher prices for housing, milk, bread, soft drinks, poultry, fish, restaurant meals, school supplies, books, cookies and pasta, clothing, sugar, medicine, and soaps, among other products.

By category, the greatest increases were reported for food, beverages, and tobacco, which increased by 4.5%. These were followed by health and beauty products, clothing and footwear, furniture and domestic appliances, school fees, housing related expenses, and transportation. Of the 46 cities surveyed for the report, the highest price increases were reported in Hermosillo (Sonora state), Cortazar (Guanajuato state), and the city of Campeche, all of which reported increases in the INPC higher than 3.5%. On the other hand, Mexicali (Baja California state), Torreon (Coahuila state), and the city of Veracruz, all reported the smallest average price increases, which were less than 2.5%. Meanwhile, the basket of basic consumer products during June increased by 2.6% relative to May.

The Central Bank also reported an increase of 2.94% in the producer price index (Indice Nacional de Precios al Productor, INPP), relative to May. The index does not take into account the prices for crude oil. The increase in inflation has put a severe constraint on the population's purchasing power in the first half of the year. The accumulated rate of almost 33% for January-June is almost twice as high as the 17% increase in the minimum wage approved so far this year. Some financial analysts suggest that the government may even face significant difficulties just in keeping the inflation rate below 50% for this year. For example, the respected financial analysis company Grupo Expansion has forecast the annual rate for this year at 52.9%. Another think tank, Centro de Analisis y Proyecciones Economicos para Mexico (CAPEM), released an even more pessimistic forecast,

saying annual inflation will reach a whopping 64.1%. But some analysts suggest inflation may not be the most pressing problem for the Zedillo administration, but rather the sharp decline in economic growth.

Several private economic analysis companies estimate that Mexico's GDP declined anywhere from 5% to 7.4% during the second quarter of the year. Indeed, analysts from Grupo Expansion's Tendencias magazine, which reported a 7.4% decline in the economy in April-June, suggested that the sharp contraction in the first half of the year was the "worst they had seen in decades." They said this means that no "miraculous recovery" should be expected for the Mexican economy this year. The sharp contraction in the economy has been reflected in the surge in the jobless rate. According to the national statistics agency (Instituto Nacional de Estadística, Geografía e Informática, INEGI), open unemployment in April reached 6.3% of the economically active population (PEA), estimated at 36.5 million people. However, private analysts estimate that as many as 9 million Mexicans, or nearly 25% of the PEA, are currently unemployed or underemployed. (Sources: Inter Press Service, 07/04/95; Reuter, 07/07/95; Agence France-Presse, 07/09/95; La Jornada, 07/08/95, 07/10/95;)

-- End --