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President Ernesto Zedillo's administration, aware that the statistics for the third quarter of the year will not be as favorable as originally expected, has begun to place a stronger emphasis on predictions for a recovery in the fourth quarter of the year, extending into 1996. According to a report in the daily newspaper Excelsior, officials of the Finance Secretariat (SHCP) and the Banco de Mexico (central bank) have discarded 1995 as a "wasted year." Excelsior claims that the Central Bank and SHCP have revised this year's economic statistics to anticipate a GDP decline of 4% and an annual inflation rate of 47% to 48%.

For several months, many private economists have insisted that the Zedillo administration's most recent official projections, which were released in the early part of the year, were overly optimistic. In those projections, the government was anticipating inflation of 42% and a GDP decline of 2%. In fact, even the unofficial estimates that Excelsior now attributes to the SHCP and the central bank may also be optimistic. Some economists have projected that inflation will grow above 50% and the country's GDP will decline by more than 5%. The Zedillo administration has long been expected to revise its earlier economic forecasts, but no official estimates had been released as of early August.

Instead, in recent speeches by Zedillo himself and Finance Secretary Guillermo Ortiz Martinez, the administration has attempted to place a positive spin on the Mexican economy, focusing more on the expected recovery at the end of the year and in 1996 than on the poorer-than-expected performance for much of this year. The emphasis on next year's economic statistics represents in part an attempt to reassure potential foreign investors that Mexico has regained long-term economic stability. For example, in a breakfast speech to members of the European Community's association of chambers of commerce and industry (Eurocam), held at the presidential palace in Mexico City on July 24, Zedillo urged Europeans to look beyond this year and anticipate a "generalized recovery" in 1996.

Still, Zedillo took the opportunity to point to what he described as "encouraging signs" for the Mexican economy since the start of the year, such as a decline in interest rates, a current account surplus, and a recovery in the value of the peso relative to the dollar. Zedillo also used the speech to emphasize his administration's success in preventing the Mexican economy from falling into an "uncontrollable inflationary spiral." In fact, Zedillo predicted the consumer price index (Indice Nacional de Precios al Consumidor, INPC) for July would remain at 2%. The accumulated inflation rate for January-June was reported at almost 33% (see SourceMex, 07/14/95). If the July rate is 2%, as Zedillo projects, then monthly inflation would have to average about 1% between July and August for the original goal of 42% to be attained. However, a monthly inflation rate of 1.8% between August and December would mean that a rate of 48% is attainable. For his part, Ortiz, in a speech to the US Chamber of Commerce in Mexico City on July 26, acknowledged that Mexico experienced a GDP decline of 5% to 6% in the second quarter of the year, which resulted in a 4% GDP decline

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for first semester of 1995. He followed that statement, however, by emphasizing that the declines anticipated in the third and fourth quarters of this year would be much smaller.

In fact, Ortiz said the economic austerity measures that were in large measure responsible for contracting the economy this year were actually laying down the foundation for the economy to register "vigorous and sustained growth" in 1996. The government's overly optimistic predictions, however, drew immediate criticism from several political and economic analysts and members of the Mexican business community, who accused the Zedillo administration of downplaying the costs of the government's economic austerity measures. Such costs include a surge in unemployment, the continuation of high interest rates, and bankruptcy for many small and medium-sized businesses. Indeed, businesspeople seem to have a very dim opinion of the country's investment climate.

A recent survey conducted by Grupo Expansion among 130 business executives found that 80% of the respondents expected the second half of the year to be as bad as the first half of the year. According to Expansion, very few of the respondents expressed any real confidence in the measures enacted by the Zedillo administration. The respondents said Zedillo has failed to take necessary steps to reactivate the economy, such as reducing taxes and promoting consumption of items produced domestically. In fact, many members of the business community remain angry at the Zedillo administration for raising the value-added tax (impuesto al valor agregado, IVA) earlier this year, since it contributed to a sharp drop in retail sales.

"We are following the same path that caused the Mexican economy to crash," said one respondent, who criticized the administration's continued reliance on short-term financial instruments to attract investment. "The vision of the business community is much different than the one offered by the administration," said columnist Laura del Alizal of the daily newspaper Excelsior. Another strong criticism about the administration's economic policies was the absence of direct and immediate measures to address the surge in unemployment.

For example, Victor Manuel Terrones, president of the manufacturing industry chamber (Camara Nacional de la Industria de Transformacion, Canacintra), warned the administration that the unemployment crisis would become even more severe in the fourth quarter of the year. According to Terrones, almost 800,000 jobs have been lost directly in the manufacturing sector as a result of the country's economic crisis. Moreover, roughly 66% of the respondents to the Expansion survey said they expected to continue to reduce their workforce in order to limit spending. Another 26% said they expected to maintain employment at current levels, while only 8% said they would be in a position to hire more workers. According to estimates offered by the country's largest labor organization, the Confederacion de Trabajadores de Mexico (CTM), 8 million workers are un- or under-employed. In contrast, the latest official report by the government's statistics agency (Instituto Nacional de Estadisticas, Geografia e Informatica, INEGI) had placed unemployment at 6.3% of the country's 36 million economically active population (PEA), or roughly 2.3 million workers (see SourceMex, 07/12/95). This number is twice as high as the rate reported in December, when the Mexican economic crisis first erupted.

Despite the criticisms, the administration appears to be banking on a long-term approach to deal with the unemployment problem. In his speech to the American Chamber of Commerce, Ortiz did

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raise some concern about what he termed the "unemployment crisis" in Mexico. On the other hand, Ortiz ruled out the possibility of massive government spending on a jobs program in the second of half of the year. Instead, he suggested that the problem has created a "greater urgency" for the administration to take the necessary steps through incentives to private and public investment to reactivate the economy in the second half of the year, and thus promote a full recovery by 1996.

For his part, in an interview with the San Diego Union- Tribune newspaper on July 23, Zedillo discussed a similar long-term approach in which the administration would continue to encourage private investment in key sectors to help create jobs, such as the export industry, housing, and infrastructure. Economist Jose Luis Calva of Universidad Nacional Autonoma de Mexico (UNAM) warned that the administration's failure to take necessary steps to address the crisis in the long term will come back to haunt the administration. "There are no incentives to produce because businesses do not have any buyers," he said. "This has forced many companies to lay off workers or reduce salaries."

A report issued by the economic and social policy analysis division of the United Nations in late July said domestic investment and consumption has contracted by about US$32 billion this year, which represents roughly 10% of Mexico's GDP. The report noted that this amount also represents more than 60% of the package of international assistance provided by the US and multilateral lending institutions.

Many observers said the economic crisis is having other repercussions for daily life in Mexico. For example, Mexico City's attorney general Jose Antonio Gonzalez Fernandez told the Los Angeles Times that violent crime in the capital city has increased by 20% since January of this year. "More than any time in history, economic conditions have become a strong influence in the incidence of crime in our city," said Gonzalez. (Sources: Los Angeles Times, 07/25/95; Reforma, 07/26/95; Excelsior, 07/19/95, 07/25/95, 07/28/95; La Jornada, 07/25/95, 07/26/95, 07/28/95; Wall Street Journal, 07/28/95; El Financiero International, 07/17/95, 07/31/95)

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