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Zedillo Uses Annual State Address to Forecast Economic Recovery by 1996

by LADB Staff

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President Ernesto Zedillo, in a cautiously optimistic state of the union address (Informe de Gobierno) on Sept. 1, predicted that the Mexican economy will begin to see signs of recovery in the third and fourth quarters of this year and experience a general recovery by 1996. In the address, which was presented to the Mexican Congress and televised to a national audience, Zedillo defended the strict economic adjustment measures enacted by his administration to deal with the economic crisis that followed the devaluation of the peso in December 1994. The measures, which were put in place in March, included an increase in the value added tax (Impuesto al Valor Agregado, IVA), a reduction in government spending, a restriction of internal credit, and other measures (see SourceMex, 03/15/95).

In defending the economic adjustment measures, Zedillo emphasized that Mexico would have faced an even worse crisis had these actions not been taken. At the same time, Zedillo told his audience that Mexico had weathered the worst of the economic crisis and was expected to show signs of economic recovery in the third and fourth quarters of this year. He predicted that the economy would experience a general recovery during 1996. "We have surmounted the worst of the crisis, and the coming years will be times of economic growth and increasing jobs," Zedillo said.

Zedillo's optimistic predictions followed a sharp drop in Mexico's GDP in the first half of the year. According to statistics released by the Finance Secretariat (SHCP) in August, Mexico's GDP declined by 10.8% in the April-June quarter, which resulted in a decline of 5.8% for the first half of the year (see SourceMex, 08/23/95). Zedillo's forecasts of a recovery in the third and fourth quarters of the year contradict predictions by some private economists. For example, as recently as August, the respected economic analysis consultant Grupo de Economistas Asociados (GEA) said there was no reason to believe a recovery was imminent in the second half of the year, since no sector of the Mexican economy would be strong enough by then to lead the economic growth.

Furthermore, the GEA report suggested that the economic austerity measures placed by the Zedillo administration went beyond the guidelines dictated by the International Monetary Fund (IMF) and the US as a condition for an economic assistance package of US\$50 billion. The package was approved primarily to keep the Mexican government from defaulting on Treasury bonds and other short-term debt obligations. Not surprisingly, Zedillo took the opportunity in the state of the union address to credit the US and the IMF for their quick action in providing the package of assistance, which he said helped stabilize the foreign exchange rate and financial markets. Because of the stability in the markets, Zedillo said, the economic adjustment period for Mexico would be "relatively brief."

Ironically, a controversial report released by the IMF just weeks before Zedillo's speech, suggested that a massive withdrawal of capital by Mexicans from the economy was more of a factor behind

the peso devaluation than the flight of foreign capital. According to the report, Mexican investors liquidated more than US\$4.7 billion in short-term investments in December, which represented about two-thirds of the US\$6.7 billion decline in reserves in Mexico that month. "The available data shows that the pressure on Mexico's foreign exchange reserves during 1994, and in particular just prior to the devaluation, came not from the flight of foreign investors or from speculative position-taking by these investors, but from Mexican residents," said the analysis, published in the IMF's annual survey of global capital markets.

Indeed, in his state of the union address, Zedillo acknowledged that a lack of capital from domestic sources contributed significantly to the devaluation and the resulting economic crisis. However, rather than mentioning the flight of capital, Zedillo's address pointed to the lack of mechanisms in Mexico to promote domestic savings. In what appeared to be a subtle criticism of some of former president Carlos Salinas de Gortari's economic policies, Zedillo suggested that the impact of this year's economic crisis would have been much smaller if the government had not neglected efforts to promote increased domestic savings. He noted that as recently as 1988, domestic savings accounted for 22% of the country's GDP, but the percentage dropped annually to about 16% in 1994.

To remedy the lack of savings, Zedillo announced intentions to create a master plan to promote domestic savings, including a reform of the tax system and measures to encourage increased contributions to retirement accounts and other programs. Zedillo also proposed other measures to help reactivate the Mexican economy, including the allocation of about 1.6 billion nuevo pesos (US\$257 million) for public works projects over the next several months, especially for housing. The money will be allocated via a new infrastructure investment program (Fondo de Inversion en Infraestructura). This announcement was of particular interest to Mexico's construction and engineering companies, such as Empresas ICA, Grupo Mexicano de Desarrollo, and Grupo Tribasa. The day of the announcement, the stock of all three companies rose sharply at the Mexican Stock Exchange (BMV) and the New York Stock Exchange (NYSE).

Still, despite the commitment to allocate funds for public works, Zedillo warned that "painful measures" are still needed in the months ahead, including cuts in state spending of about 10% over last year. Ironically, this announcement also contributed to general gains at the BMV since it eased fears that the Zedillo administration would launch a massive program of public spending, which could fuel inflation, in order to overcome a negative rating in the polls.

According to recent public opinion polls, Zedillo's approval rating had fallen to 34%. Indeed, in the state of the union address, Zedillo attempted to present himself as a president who was seeking "positive" political and economic reforms. His first symbolic action was to limit his speech to less than 90 minutes, compared with discourses of several hours by his predecessors. Analysts noted that Zedillo's speech lacked the litany of "self-serving" achievements that were contained in speeches by former presidents, even in their first year in office. Unlike previous years, Mexicans were not given a public holiday to listen to the speech. In addition to the economy, Zedillo addressed a number of political and social issues, focusing especially on political reform and the increase in crime in Mexico.

In the speech, Zedillo suggested that no amount of economic growth would be sufficient without guarantees of law and order. "We are laying the foundation to strengthen our rule of law," he said. "We want a more democratic and just Mexico." Among other things, Zedillo pledged to offer legislation to fight organized crime and to establish a new agency (Sistema Nacional de Seguridad Publica) to train and professionalize Mexico's corrupt police force. "Drug trafficking has become the most serious threat to national security, our society's health and civic peace," Zedillo said. "We will continue to combat drug trafficking with all the means at our disposal."

Zedillo also used the speech to defend Attorney General Antonio Lozano Gracia, the first member of the opposition National Action Party (PAN) to serve in a PRI administration. Lozano has come under strong criticism from members of the governing Institutional Revolutionary Party (PRI) for alleged political bias, especially for his decision to expand the investigation into spending irregularities by the PRI in the gubernatorial election in Tabasco last November. Lozano's investigation was prompted by complaints by the Democratic Revolution Party (PRD) that the PRI had significantly surpassed the allowed spending limit to ensure the election of PRI candidate Roberto Madrazo Pintado as governor. Lozano's decision to investigate the matter led Madrazo to file a lawsuit against the Attorney General (see SourceMex, 08/30/95).

Zedillo's support for Lozano was further reflected in a speech the president made before 600 PRI leaders on Sept. 3. In the speech, Zedillo urged leaders of his party to accept comprehensive internal reforms that among other things would promote "transparency" regarding the source of campaign contributions. Meantime, Zedillo's state-of-the-union address also mentioned other general and specific political reforms designed to deal with the charges of political corruption in the PRI. Among other things, he pledged to create a federal auditor's office (Auditoria Superior de la Federacion) that would make Congress rather than the executive branch responsible for overseeing public spending. Theoretically, the creation of the auditor's office would further separate the government from the PRI, which would ensure public funds are no longer funneled to the party for political campaigns and patronage projects.

Another promise made by Zedillo in his state-of-the-union address was a pledge to safeguard the autonomy of the Supreme Court and respect the independence of justice authorities. Despite his promises to fight political corruption and crime, however, Zedillo's speech attracted strong criticism from the two major opposition parties and several non-governmental organizations. For example, in what was described as the "counter" state of the union address on Sept. 1, members of 77 civil organizations denounced Zedillo's speech as discourse devoid of solutions to Mexico's most pressing problems. "Considering the half-truths and the analytical fantasies presented in presidential addresses, a few citizens have decided to present an alternative report that presents the facts in a truthful manner" said a text of the "counter address."

Among other things, the organizations criticized the Zedillo administration for failure to resolve several recent high-profile assassinations, including Guadalajara Cardinal Juan Jesus Posadas, presidential candidate Luis Donald Colosio, and PRI official Jose Francisco Ruiz Massieu. Participants in the "counter address" also chided Zedillo for devoting so little time in his speech to the still-unresolved political dispute in Chiapas. Indeed, in the speech Zedillo made only a brief mention of Chiapas, mostly promising to continue negotiations with the Zapatista National

Liberation Army (EZLN) and to create a comprehensive program to pull the region out of poverty and promote the rights of its indigenous communities.

Zedillo's speech also faced criticism from representatives of labor, which has been a strong supporter of PRI administrations. "The first nine months of the Zedillo administration have been characterized by hard blows against the working class," said Alfonso Reyes Medrano, economic consultant to the Mexican Workers Confederation (CTM). "They have lost so much purchasing power, they can't buy even the most basic products."

As expected, members of the opposition parties took the opportunity to criticize Zedillo's address. For example, Porfirio Munoz Ledo, president of the PRD, criticized Zedillo's address as "too evasive" and lacking in specific solutions to Mexico's political and economic problems. Similarly, Guanajuato Governor Vicente Fox of the PAN, who is considered a likely candidate for the party in the elections in the year 2000, criticized Zedillo for refusing to accept advice even from members of the opposition who wished to cooperate with the government. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Sept. 5, reported at 6.23 nuevo pesos per US\$1.00] (Sources: Agence France-Presse, Associated Press, 08/21/95; New York Times, 08/22/95; La Jornada, 08/22/95, 08/23/95; Inter Press Service, 08/23/95; Reforma, 08/31/95; Notimex, Deutsche Press Agentur, Reuter, 09/01/95; Excelsior, 08/31/95, 09/02/95, 09/05/95; El Financiero International, 09/04/95; El Norte, 09/05/95)

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