1-10-1996

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Zedillo Administration Reiterates Forecast of 3 Percent GDP Growth in 1996

by LADB Staff
Category/Department: Mexico
Published: 1996-01-10

In early January, President Ernesto Zedillo's administration announced an ambitious goal to create 600,000 new jobs in Mexico during 1996. The administration's employment target is based on optimistic official predictions of 3% growth in GDP during this year. The Zedillo administration's relatively bright employment forecast coincided with a surge in the Mexican Stock Exchange (BMV) during the first week of January. That week, the BMV's main index (Indice de Precios y Cotizaciones, IPC) reached a record 3,011, an increase of 8.4% from the previous week.

Economists and financial analysts acknowledged that the BMV's strong performance was a positive development for the Mexican economy from a psychological standpoint, and possibly a sign that the country's economic decline had bottomed out. According to market analysts, the surge in the IPC was based on a number of factors, including a reduction in short-term interest rates in Mexico, a gain in the value of the peso, a strong rally in the New York Stock Exchange's Dow Jones Industrial Average, and renewed interest by US and other foreign investors in Latin America.

According to El Financiero International weekly business newspaper, foreigners reportedly invested an estimated US$10 billion in Mexico and other Latin American markets during the first full week of January. Economists point out that the renewed confidence by foreign investors in Mexico is based on the Zedillo administration's success in paying all its obligations on US$29.2 billion in Treasury bonds (Tesobonos) that matured in 1995.

Additionally, much of the confidence in the economy is based on the government's promise to maintain a balanced budget and to continue efforts to bring down inflation. Despite the BMV's strong performance, however, many analysts cautioned against taking an overly optimistic stance, especially since the influx of foreign investment in the market could easily reverse. "Money that comes in one week, could leave the next," read an article in El Financiero. Indeed, many analysts pointed out that the Zedillo administration must address a number of fundamental weaknesses in the economy in order to achieve sustained growth.

The analysts said the structural weaknesses including a fragile banking system, massive unemployment, reduced purchasing power, and a depressed retail sector, among other areas created strong doubts about the administration's forecasts of 3% GDP growth in 1996. According to a study published by Grupo Financiero Bancomer (GFB), the extremely tenuous debt situation of individuals and companies, along with the continued weakness of the peso relative to the dollar and the continuation of high interest rates, will severely constrict consumption during the year, which will prolong Mexico's recession.

The GFB study noted that the retail industry, which was responsible for one-fourth of all the overdue debt to banks as of June of last year, remains in a very weak position. The study said the
businesses with the greatest rate of overdue debt were those involved in sales of agricultural inputs, construction materials, furniture, electronics, and groceries. "The country is choking for a lack of credit," said analyst Robert C. Herz of Prudential Securities, who noted that most commercial banks in Mexico remain hesitant to make new loans because of concerns about inflation and an unstable peso-dollar exchange rate.

Some economists also suggested the administration's forecast of 3% growth is questionable, given the sharp economic decline in 1995. The government has not yet issued the final economic statistics for 1995, but one preliminary estimate by the Finance Secretariat (SHCP) in mid-December projected a GDP decline of 6.5% to 7%, compared with the Zedillo administration's earlier forecasts of a 5% decline in GDP. The preliminary estimate from the SHCP is very similar to a projection released by the Organization for Economic Cooperation and Development (OECD) in mid-December, which forecast a GDP decline of 6% for Mexico last year.

Still, some economists expressed optimism that Mexico could experience positive growth in 1996, especially if the administration succeeds in diversifying the economy away from a strong reliance on exports to promote growth. The economists noted that despite the government's efforts to encourage small- and medium-sized businesses to expand their sales to overseas markets, only the largest companies have shown a consistent capacity to export their products. Economists note that the most dangerous structural weakness in the Mexican economy is massive unemployment, along with a severe reduction in purchasing power of a majority of the population. They warn that unless the government is able to create new jobs, the Zedillo administration could be facing the prospect of increased social unrest.

"[Zedillo] must be careful about deficient salaries and the lack of jobs," said Rodolfo Navarrete of Casa Vector, who warned that the administration must place much more effort on making improvements in these areas. Indeed, according to most estimates, roughly 20 million of Mexico's economically active population of 36 million are either unemployed or underemployed. In order to address this problem, some economists suggest the Zedillo administration must make more of an intentional effort to create jobs, perhaps through the development of special jobs programs.

The Zedillo administration has shown willingness to spend some money on efforts to create jobs. For example, in early January Zedillo's economic spokesman, Alejandro Valenzuela, announced a special program to provide technical and other specialized training, along with temporary jobs, to 1.9 million Mexicans. However, the administration appears to have ruled out massive expenditures on jobs programs, since maintaining a balanced budget remains a cornerstone of its economic policies. Rather, the administration appears to be relying heavily on economic growth during the coming year as the motor force for creation of 600,000 jobs in 1996, the target set by the government for this year. The employment goal, however, has been questioned by prominent members of the business community. For example, Victor Manuel Terrones, president of the national manufacturing industry chamber (Camara Nacional de la Industria de Transformacion, CANACINTRA), said his organization's own projections suggest that economic growth during the coming year would result in the creation of only 350,000 jobs.

"The economic recovery will affect only a few sectors of the economy," said Terrones, who held a press conference on the same day that Valenzuela released the government's projections. "We will
need at least two years to recover the levels of production, investment, and employment that we had before the crisis," said Terrones. He also noted that the 350,000 new jobs his organization has forecast for this year represent only one-third of the total job loss of 1.2 million that resulted from the economic crisis of 1995. In addition to the job loss, another 1 million persons who entered the job market for the first time last year were unable to find employment.

Terrones's predictions paled in contrast to pessimistic forecasts from economists Hugo Contreras and Fernando Talavera of the Universidad Nacional Autonoma de Mexico (UNAM). Rather than forecasting any gains, Contreras and Talavera projected the loss of another 400,000 jobs during 1996. The two economists said their prediction is based on indications that consumption and investment will remain severely depressed during this year. In addition to improving the employment situation, some economists suggest that the Zedillo administration must also take decisive steps to boost the purchasing power of workers in order to encourage consumption.

However, in order to enhance purchasing power, the administration would have to allow salary increases to keep pace with the rate of inflation, which in turn could result in greater inflation. The administration has targeted an annual inflation rate of 20.5% for 1996, but many economists anticipate the rate will be closer to 30% or higher. According to a report released by the Banco de Mexico (central bank) on Jan. 9, Mexico's annual inflation for 1995 totaled 51.97%. During the press conference announcing the administration's employment targets for 1996, Valenzuela reiterated the administration's goal of keeping the annual inflation rate at about 20%. The presidential spokesman also said the administration had chosen to focus on creating new jobs during the coming year, which meant that any direct efforts to boost purchasing power would have to be delayed.

On the other hand, he said economic growth in and of itself could result in increased purchasing power for many workers. Still, the drop in purchasing power for a large segment of the population is expected to remain a difficult political issue for the Zedillo administration during 1996. According to a study conducted by UNAM researchers, the index of basic products purchased by workers (canasta obrera indispensable, COI) has increased by 725% in the last eight years, while salaries have only increased by 210% during the same time period. The study noted that the minimum wage paid in December 1987 allowed the average worker to acquire 31 of the 35 basic products comprising the COI. In contrast, the study said that by December 1995, the number of products that workers could afford declined to just 15 of the 35 listed in the COI. The study also noted that Mexico's minimum wage of about 20.15 pesos (US$2.68) per day is already 15% below the historic low set in the 1950s.

According to Arturo Lomelin, head of the consumer rights organization Asociacion Mexicana de Estudios para la Defensa del Consumidor (AMEDEC), price increases have already been announced or implemented for a number of basic goods and services during 1996. These include rents, meat, milk, tortillas, and telephone rates. Lomelin said that most of Mexico's workers would be unable to withstand another increase in prices, especially since consumer inflation during December surged by more than 6%, the highest monthly rate for the year. Meantime, labor unions are placing strong pressure on the Zedillo administration to accept mechanisms that would allow workers to ask for higher salaries than those allowed under anti-inflation agreements signed by the government with labor and business leaders. "We have to rescue, whatever way we can, the purchasing power of
workers," a leader of the workers congress (Congreso del Trabajo, CT) told the daily newspaper Excelsior.

The administration is also facing pressure from key members of the private sector, who want the government to ease restrictions on price increases of basic consumer goods. In early January, the national corn millers and tortilla producers union (Union Nacional de Molineros de Nixtamal y Productores de Tortilla de Maiz) threatened to unilaterally impose an increase of 130% in the price of tortillas. "Whether the authorities like it or not, this is the only way to save 125,000 businesses in our industry from going bankrupt," said Nazario Palomera, an executive with the organization. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 9, reported at 7.5 pesos per US$1.00] (Sources: Agence France-Presse, 12/18/95, 12/26/95; Inter Press Service, 01/03/95; New York Times, 01/03/96, 01/04/96; El Financiero International, 12/25/96, 01/08/96; Excelsior, 01/02/96, 01/06/95, 01/10/95; La Jornada, 01/04/96, 01/10/95; Reforma, 01/04/96, 01/05/96, 01/10/95)

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