4-3-1996

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LADB Article Id: 55724
ISSN: 1054-8890

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by LADB Staff
Category/Department: Mexico
Published: 1996-04-03

In a report released in early April, the private sector's economic studies center (Centro de Estudios Economicos del Sector Privado, CEESP) issued a stinging report that sharply criticizes President Ernesto Zedillo for taking the wrong approach in his effort to help Mexico emerge from its economic crisis. The report, dated April 1, accused the Zedillo administration of adopting an overly optimistic stance regarding Mexico's economic performance for 1996, which in turn is preventing the government from taking more concrete steps to bring Mexico out of its recession. "Economic recovery cannot wait any longer, given the urgency to halt the deterioration of our productive sectors and to promote the well-being of Mexican families," the report said.

The CEESP report acknowledged the need for Mexico to continue to push for economic stability, but criticized the administration for placing too much emphasis on macroeconomic performance. "On one hand, it is imperative for the government to consolidate all the economic variables, reduce inflationary pressures, and induce a stable exchange rate," the report said. "On the other hand, it is just as important to provide direct support to strengthen the country's productive sector, which would alter the administration's macroeconomic forecasts."

Furthermore, the CEESP said the administration's insistence on adopting overly optimistic economic projections had also contributed to eroding confidence among foreign investors, evidenced by a relatively heavy flight of soft investments during February and March. According to the CEESP, a total of US$4 billion in foreign capital was withdrawn from Mexico in February, effectively cancelling out the US$4.6 billion in new foreign investment that had arrived in Mexico during January, at a time when foreign investors were optimistic about the country's economic prospects.

The report said the pattern appeared to have repeated itself the following month. According to preliminary estimates compiled by the CEESP, US$4.2 billion in new foreign capital was invested in Mexico during February, but this was offset by the flight of US$3.4 billion in March. The withdrawal of foreign capital, while not yet posing a direct danger to the Mexican economy, will mean that interest rates will remain high, thus restricting credit and inhibiting growth. "Unfortunately, the Mexican economy still requires significant financial resources, whether domestic or foreign," said the CEESP. "Because of this, we do not see any prospects of lower interest rates." The CEESP urged the administration to increase public spending to stimulate the economy. "True recovery must originate in non-governmental activities," the CEESP said. "But to stimulate growth in the private sector, the administration must take direct action to stimulate investment and consumption."

The report suggested that the Zedillo administration accomplish this by expediting the privatization of the national railroad (FERRONALES), as well as the country's petrochemical plants, seaports, and airports. In addition, the report recommended that the government reduce taxes on businesses

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and individuals. According to the CEESP, domestic consumption declined by almost 13% in 1995, or twice the rate of decline reported in 1994. Additionally, the CEESP said total investment in Mexico declined by 31% from the prevailing level in 1994. The CEESP criticisms were echoed by other business organizations and political observers.

A report issued in April by the national manufacturing industry chamber (Camara Nacional de la Industria de Transformacion, CANACINTRA) projected that the immediate future for the Mexican economy will be "complex" and "difficult," since the government has neglected the manufacturing and agricultural sectors. The report, published to coincide with the CEESP report, said any growth in GDP reported this year will be merely "statistical," since fewer than one-third of manufacturing businesses will be able to recover even 20% of the productive levels they lost last year. "This does not constitute a guarantee of national recovery," warned CANACINTRA. A few days before the CEESP and CANACINTRA reports were released, a group of business leaders criticized the administration for lacking specific policies to stimulate the Mexican economy.

The leaders expressed their concerns at public forums during the annual meeting of the confederation of industrial chambers (Confederacion de Camaras Industriales, CONCAMIN) in Mexico City in late March. Among those represented at the meeting were the presidents of CONCAMIN, the confederation of national chambers of commerce (Confederacion Nacional de Camaras de Comercio, CONCANACO), the business coordinating council (Consejo Coordinador Empresarial, CCE), the employers confederation (Confederacion Patronal de Mexico, COPARMEX), and Mexico City's national chamber of commerce (Camara Nacional de Comercio de la Ciudad de Mexico, CANACO).

In particular, the business leaders criticized the Zedillo administration for placing its entire focus on reaching macroeconomic goals, rather than on creating direct measures to stimulate the economy. CONCAMIN president Victor Manuel Diaz Romero told reporters that a reduction in inflation should be the result of the government's economic policies, not the government's main objective. "What we are demanding is that the government reduce the cost of money and create concrete programs to support the productive sector," said Diaz Romero.

These concerns were echoed by CONCANACO's president, German Gonzalez Quintero, who urged the administration to revise its inflation forecast to reflect more realistic trends over the past several months. Gonzalez projected that the consumer price index (Indice Nacional de Precios al Consumidor, INPC) will reach at least 3.5% in April, given recent increases in the price of milk, gasoline, and other products that went into effect at the start of April. "Because of increases in the price of basic goods and salaries, it is impossible to believe that the administration will meet its stated inflation goals," said Gonzalez Quintero.

Earlier this year, the Zedillo administration forecast annual inflation for 1996 at 20.5%. The latest statistics for March have not yet been released, although most economists believe the accumulated rate for the first quarter of the year will approach 9%.

According to one estimate, the accumulated inflation rate for the first 10 weeks of the year, through mid-March, was already close to 8%. An increase in milk prices approved by the government in

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mid-March is expected to result in an INPC of 3.5% to 4.2% during April, according to various estimates. The higher milk prices, which went into effect on April 1, were approved by a commission of business, labor, and government representatives, in an effort to help support the Mexican dairy industry (see SourceMex, 03/20/96). The increase in milk prices and possible hikes in the price of tortillas are expected to have an impact on the INPC through at least the middle of the year.

One estimate, from the economic forecasting company Ciemex-Wefa, projected an INPC of 4.2% in April and close to 3% in June. Meantime, CONCANACO's Gonzalez Quintero criticized the administration for allowing price increases in energy products, which he said will be counterproductive to helping the economy recover. He said higher prices for gasoline, diesel, and lubricants, effective on April 1, will greatly increase the cost of production for practically all economic sectors in Mexico and thus hamper economic recovery. A number of business leaders also criticized the administration for placing so much emphasis on bailing out the banking system and virtually ignoring other business sectors. "The government should have taken the opposite route, helping businesses overcome their financial difficulties," said CONCAMIN's Diaz Romero in an interview with the weekly news magazine Proceso. "By regaining solvency, businesses would be able to repay banks."

Meantime, in an article published in the April 1 issue of Proceso, columnist Carlos Acosta Cordova criticized the Zedillo administration for relying too heavily on unrealistic economic forecasts. "Finance Secretary Guillermo Ortiz has an ongoing campaign to convince the business community that the Mexican economy has touched bottom and that the basis for recovery is in place," said Acosta. "But Ortiz has been unable to convince foreign brokerage companies and Mexican business leaders that the recovery is underway."

According to Acosta, the administration continues to project an overly optimistic economic performance for this year, even though its predictions last year were far off the mark. For example, he said Finance Secretary Ortiz had boldly predicted that Mexico's economic performance would begin to recover in the second quarter of last year, once the Zedillo administration's emergency economic program (Programa de Accion para Reforzar el Acuerdo de Unidad para Superar la Emergencia Economica, PARAUSEE) was in place. The program, which was announced in March of 1995, was staunchly opposed by business organizations, since two of its key elements were an increase in the value-added tax (impuesto al valor agregado, IVA) and higher energy prices (see SourceMex, 03/15/95 and 03/22/95). "The second quarter arrived with the results, which surpassed the most pessimistic predictions, that GDP had fallen by 10.5%," said Acosta. "This was followed by declines of 9.6% in the third quarter and 6.6% in the fourth quarter."

In fact, Acosta noted that Mexico's GDP decline of 6.9% represented the worst economic performance since 1932. Indeed, this year President Zedillo and members of his cabinet continue to hold on to their predictions for a modest GDP growth and for only a moderate increase in annual inflation. Following the CONCAMIN conference in early April, Zedillo said he disagreed with the proposals by the business leaders that increased public expenditures are the best route to help the Mexican economy recover. Instead, he pledged that his administration will maintain fiscal and monetary discipline, to keep inflation under control. "Only a firm reduction in the inflation rate will bring down interest rates, which is fundamental step for production to recover," said Zedillo.

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The President admitted that high interest rates remained a major problem for the Mexican economy, but he placed the blame on the Banco de Mexico (Central Bank) for limiting the amount of money in circulation. "The Banco de Mexico must find a way to reduce the cost of money," Zedillo told business leaders. "It is not acceptable to restrict the flow of money and maintain high interest rates." At the same time, Zedillo pledged that the federal government will not neglect its responsibility to promote economic and industrial development. He said the Trade Secretariat (SECOFI), under the leadership of Trade Secretary Herminio Blanco, has been developing a special industrial development program, which will be unveiled sometime in April. Similarly, Finance Secretary Ortiz dismissed the criticism from the business sector and predicted that an economic recovery would take root in the second quarter of the year. He also suggested that the estimate of 3% GDP growth is still "realistic," although he said a rate of 5% is what the Mexican economy requires to fully recover.

Regarding inflation, Ortiz stopped short of predicting that the government would meet its target of 20.5% annual rate. However, he said the Zedillo administration would continue to take whatever steps are necessary to meet this goal. "Many brokerage houses continue to project high inflation for this year," he said. "But starting in April, we should begin to see better statistics regarding the inflation rate." Meantime, a report in El Financiero International weekly business newspaper in early April suggested that the Zedillo administration may have some reason to believe that the economic crisis has touched bottom. For example, the newspaper pointed to an increase of almost 10% in imports of capital goods during February and a recovery in retail sales during January. According to the report, sales of motor vehicles during February were 70% higher than during the same month in 1995, representing the first year-over-year increase since the devaluation of the peso in late 1994.

Still, in the midst of its optimistic forecasts for 1996, the Zedillo administration in early April presented a 500-page report to the Chamber of Deputies detailing the extent of economic decline in 1995. According to the report, the GDP decline of 6.9% last year was one of the worst in Mexican history. Among other things, the report said the crisis resulted in the loss of almost 1.7 million jobs, a drop of 19% in public investment, an inflation rate of 52%, a decline of 15% to 20% in purchasing power, and an increase of 51% in payments on the foreign debt. According to the report, the greatest impact of the economic crisis was on the industrial sector, whose growth rate fell by 8%, or more than one percentage point above the decline in the economy as whole. (Sources: La Jornada, 03/26/96, 03/28/96, 04/01/96; El Financiero, 01/26/96, 03/29/96, 04/01/96; El Financiero International, 03/18/96, 03/25/96, 04/01/96; Agence France-Presse, Proceso, 04/01/96; Reforma, 01/26/96, 03/29/96, 04/01/96, 04/02/96; Excelsior, 04/01/96, 04/02/96)

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