

11-5-1997

Zedillo Faces Strong Fight From Opposition Parties over 1998 Budget Plan

LADB Staff

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

Recommended Citation

LADB Staff. "Zedillo Faces Strong Fight From Opposition Parties over 1998 Budget Plan." (1997). <https://digitalrepository.unm.edu/sourcemex/3819>

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.

Zedillo Faces Strong Fight From Opposition Parties over 1998 Budget Plan

by LADB Staff

Category/Department: Mexico

Published: 1997-11-05

President Ernesto Zedillo expects a strong fight in the opposition-dominated Chamber of Deputies when he submits his budget proposal for 1998. The president, who must submit the budget to the Chamber of Deputies by Nov. 15, has said the document will reach the legislature a few days in advance of the deadline. Finance Secretary Guillermo Ortiz Martinez and other deputy secretaries have already presented some of the budget proposals in public forums with labor and business organizations and with members of the finance and budget committees in the Chamber of Deputies.

SHCP spokesperson Alejandro Valenzuela told reporters the administration is anticipating a fierce battle in the Chamber of Deputies because of differences with opposition parties regarding taxes and expenditures for social programs. President budget maintains tight fiscal policies According to Valenzuela, Zedillo's budget reflects the president's commitment to continue the tight fiscal policies of the past 15 years, which are intended to promote economic growth through increased savings and low inflation.

Valenzuela said Zedillo's budget proposal is based on several macroeconomic goals for next year, such as GDP growth of 5% and annual inflation of 10%. The president's budget also proposes a modest increase of 3 percentage points in expenditures for social programs, but critics are quick to point out that this increase is too small to compensate for inflation. Zedillo has proposed a budget of 830 billion pesos (US\$102 billion) for 1998, an increase from the 1997 spending levels of 725 billion pesos (US\$89 billion). SHCP sources said the administration will compensate for the higher budget in part by placing a higher priority on enforcement of tax collections and other measures such as the implementation of a tax structure for street vendors.

Opposition bloc seeks lower taxes, more social spending

In contrast to the president's commitment to stay the course, the opposition bloc led by the center-left Partido de la Revolucion Democratica (PRD) and the center-right Partido Accion Nacional (PAN) has offered its own budget proposals, which focus primarily on a reduction and restructuring of taxes and a commitment to increase funding for key social programs such as housing, education, and health. The opposition bloc which also includes representatives of the Partido del Trabajo (PT) and the Partido Verde Ecologista Mexicano (PVEM) formulated its proposal after reconciling the positions of the PAN and PRD. The PRD accepted a proposal to limit the budget deficit to 1% of GDP, while the PAN agreed to go along with the PRD's timetable to reduce taxes.

The opposition bloc made some attempts to incorporate legislators from the governing Partido Revolucionario Institucional (PRI) into the budget discussions. However, PRI members in the Chamber of Deputies chose to formulate their own plan, basically supporting Zedillo's blueprint but also proposing their own modifications, some of which coincide with recommendations of the opposition bloc. "We propose an economic policy that seeks to attain an annual rate of growth

of at least 5.5%, which is a viable goal in light of the dynamic productivity and the high levels of investment observed in the last few months," said PRI Deputy Angel Aceves. The opposition bloc which is now informally known as the Grupo de los Cuatro or G-4 is primarily promoting a reduction in the impuesto al valor agregado (IVA).

The PAN had originally pushed for a reduction to the prevailing 1994 rate of 10%, but agreed to accept a more gradual reduction. President Zedillo raised the IVA to 15% in 1995 as one of the measures to deal with the devaluation of the peso in 1994 and the ensuing economic crisis (see SourceMex, 03/15/95). The opposition bloc's proposal also includes a PRD-led initiative to increase the IVA for luxury items such as television satellite dishes and yachts to 20%, while at the same time reducing or eliminating the tax on basic services such as domestic energy, gas, and telephone service. The PAN has also proposed a reduction in income taxes (impuesto sobre la renta, ISR) to stimulate economic development.

Administration staunchly opposes tax cuts

However, the administration remains adamantly opposed to any reduction in either the IVA or the ISR. At a forum sponsored by the business organization Confederacion Patronal Mexicana (COPARMEX), deputy finance secretary Tomas Ruiz warned that a reduction in the IVA would result in the loss of 35 billion pesos (US\$4.3 billion) in revenues for the government, while a reduction in the ISR could result in 5 billion pesos (US\$615 million) in lost collections. "We run the danger of returning to an economy that relies too heavily on revenues from the petroleum sector," said Ruiz. "This would leave our finances vulnerable to fluctuations in the global crude-oil market."

According to Ruiz, the government already is too dependent on oil revenues, since tax collections and royalties from the state-run oil company PEMEX account for 40% of all revenues. The administration's opposition to reductions in the IVA is supported by the private economic think tank Centro de Estudios Economicos del Sector Privado (CEESP), which warns that a reduction in this tax could actually hurt the poorest segments of the population in the long run. "Since the majority of poor people in Mexico have access only to the basket of basic goods, which is not taxed and is supplied by the government, they will not benefit from the opposition bloc taxation proposal, but will suffer the negative effects of rising inflation," the CEESP said.

For its part, the opposition bloc has offered some measures to counter the increased spending on social programs and reduction in tax revenues in its budget proposal. One measure, initiated by the PRD, would eliminate direct government support for sectoral rescue programs such as the Fondo Bancario de Proteccion al Ahorro (FOBAPROA), which was the principal tool used by Zedillo and former president Carlos Salinas de Gortari to rescue some financially strapped banking institutions. According to PRD Deputy Ricardo Garcia Saiz, chair of the budget committee (Comision de Programacion y Presupuesto), in recent years the government has spent the equivalent of 5.5% of Mexico's GDP to rescue the banking sector and the system of toll highways.

Garcia said the opposition bloc does not necessarily advocate the disappearance of these programs, but rather the creation of special tax mechanisms to fund them. The PRD and the PAN also agree on the need for the federal government to channel more funds to state and municipal governments. According to PAN president Felipe Calderon, a number of municipal governments are nearing

bankruptcy because they have been forced to provide increased services without federal assistance or the structure to impose their own taxation system.

The potential impasse in the Chamber of Deputies over the budget has created some concerns in financial markets. However, PRI legislative leader Arturo Nunez predicts that the Congress and the administration will eventually reach some sort of compromise. "None of the parties can afford the political consequences of a budget impasse, which could have a profound impact on the Mexican people," said Nunez. SHCP spokesperson Valenzuela was optimistic the disagreements between the opposition bloc and the administration could be resolved.

Still, Valenzuela said the matter could end up in the Mexican Supreme Court in case the two sides remain at an impasse. For his part Deputy Marcelo Ebrard expressed confidence that the Supreme Court would favor the Congress if the budget matter ever reached that stage. "The Constitution says the Chamber of Deputies must examine, discuss and approve the federal budget," said Ebrard, who has no party affiliation. (Sources: Reuter, 10/14/97, 10/16/97; Notimex, 10/25/97; La Jornada, 10/01/97, 10/15/97, 10/17/97, 10/22/97, 10/24/97, 10/31/97; Excelsior, 10/01/97, 10/03/97, 10/17/97, 10/24/97, 10/31/97, 11/03/97, 11/05/97; El Financiero International, 10/20/97, 11/03/97; Bloomberg News, 11/03/97; Novedades, 10/01/97, 10/10/97, 10/17/97, 10/24/97, 10/29/97, 10/31/97, 11/03/97, 11/04/97; El Nacional, 11/04/97; El Universal, 10/01/97, 10/03/97, 10/13/97, 10/14-16/97, 10/20/97, 10/24/97, 11/05/97; El Economista, 10/09/97, 10/14/97, 10/17/97, 10/24/97, 10/29/97, 11/03-05/97; The News, 10/09/97, 10/15-17/97, 10/31/97, 11/03-05/97)

-- End --