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## **President Ernesto Zedillo Wins Legislative Approval for 1998 Budget**

*by LADB Staff*

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After weeks of heated debate, the Chamber of Deputies approved President Ernesto Zedillo's 1998 budget proposal with minor changes. The budget won approval after the center-right Partido Accion Nacional (PAN) temporarily abandoned its alliance with other opposition parties and opted to negotiate a partial compromise with Zedillo's governing Partido Revolucionario Institucional (PRI). For weeks, PAN and its partners in a coalition of opposition parties had pushed an alternative budget plan, which included a reduction in the value-added tax (impuesto al valor agregado, IVA), the elimination of consumer taxes on natural gas and electricity, and increased spending on education, housing, and other key social programs.

The center-left Partido de la Revolucion Democratica (PRD), which was the other major player in the opposition bloc, was also pushing for the budget to include proposals such as the creation of a comprehensive relief package for bank debtors and a 17% increase in salaries for government workers. According to the PRD, the public-sector wage hike would be followed by a similar increase in the private sector. The bloc, which also included the Partido Verde Ecologista Mexicano (PVEM) and the Partido del Trabajo (PT), initially presented a united front by rejecting outright the legal framework behind Zedillo's original budget proposal.

The opposition bloc, known as the Grupo de los Cuatro (G-4), used its narrow majority to override the PRI legislators, who were supporting the president's proposal. The G-4's insistence on reducing the IVA to 12% from the prevailing 15% proved to be the greatest source of tension between PRI and the opposition. As a sign of good will, the opposition agreed in early December to take a separate vote on the IVA reduction while examining other aspects of the budget proposal.

In a vote in early December, the lower house passed legislation to lower the IVA by three percentage points. This vote represented only a partial victory, since the IVA reduction still had to be voted on by the Senate, where PRI maintains a majority. As expected, the Senate rejected the IVA reduction by 73-41 and sent the measure back to the Chamber of Deputies. Taking a defiant stance, the legislative leader of the Chamber of Deputies, Porfirio Munoz Ledo of the PRD, called for another vote on the IVA reduction.

The opposition bloc again prevailed against PRI, voting a second time to reduce the IVA to 12%. Then, the measure went back to the Senate for a second time, where the PRI majority again rejected the IVA reduction, thus ensuring that the 15% rate would remain in place at least during 1998. PAN breaks with opposition bloc to support Zedillo's plan According to political analysts, PAN leaders became concerned about the possibility of a protracted budget fight. If the Chamber of Deputies failed to pass budget legislation by the end of the session on Dec. 15, the same budget used during 1997 would continue during 1998.

Prominent columnist Sergio Sarmiento said the PAN decided to reach a settlement with PRI rather than face a prolonged fight and the prospect of paralysis at the beginning of the next legislative session. Sarmiento said PAN was able to incorporate some of its proposals into a revised version of the budget, which was submitted for a vote to the Chamber of Deputies the day before the scheduled end of the legislative session. With the support of PAN members in the Chamber of Deputies, the compromise budget passed by 341-132. As expected, the opposing votes came from members of the PRD, PT, and PVEM.

The PRI-PAN compromise budget contains a handful of minor changes, including a transfer of funds from the bank-bailout fund (Fondo de Proteccion al Ahorro, Fobaproa) to a special program of direct assistance to cities (Fondo de Aportaciones para el Fortalecimiento Municipal y Fondo de Aportaciones Multiples). The compromise also includes a reduction in the president's discretionary fund, and it requires the administration to close Mexico's foreign tourism offices. In addition, the deal forces the executive to privatize the government-owned daily newspaper El Nacional and the official news agency Notimex, both of which have served as a mouthpiece for PRI.

### ***PRD leader Munoz Ledo denounces PAN deal with Zedillo***

The PAN's decision to negotiate a separate deal with PRI brought angry protests from the PRD. Legislative leader Munoz Ledo bitterly accused PAN of ending all hopes for a legislature that is "truly autonomous and independent" from the executive branch. Munoz Ledo also berated PAN for reverting to agreements with PRI, a practice that allowed former president Carlos Salinas de Gortari to consolidate his political power and promote policies that were counter to the public interest, such as massive privatizations. "Those who do not learn from the mistakes of history are bound to repeat them," said Munoz Ledo.

PRD leaders, however, were not unanimous in their criticism of the PAN-PRI deal. Deputy Ricardo Garcia Sainz, who heads the budget committee (Comision de Programacion y Presupuesto), said the changes in the budget promoted by PAN represent a good first step for the legislature. For example, he cited greater transparency in the expenditures of the executive and increased input by the legislature in the allocation of financial resources. The PRD also left the door open for joint legislative initiatives with PAN. In a press conference after Zedillo's budget was passed, PRD national leader Mario Saucedo said the party will continue to seek coalitions with PAN and other parties. "The G-4 will continue to work together in many areas, such as political reform and the ongoing effort to create a truly independent legislative branch," said Saucedo.

According to political observers, PAN's decision to negotiate with PRI could have negative repercussions for that party. "There are great benefits for any party that is able to present itself as a viable alternative to PRI, which is widely despised," said columnist Sarmiento. On the other hand, Zedillo appears to have gained from the recent budget fight with the Congress. "President Zedillo won big," prominent political scientist Federico Estevez told The New York Times. "This is basically his budget with a few odds and ends added on."

### ***Zedillo appoints finance secretary to head central bank***

Having won approval of his 1998 budget proposal, Zedillo was quick to assert his control by nominating Finance Secretary Guillermo Ortiz Martinez to the post of chief governor of the

Banco de Mexico (central bank). The nomination, which only required Senate approval, was overwhelmingly approved by the PRI-dominated chamber by a 68- 37 vote. As expected, Ortiz's nomination met with strong opposition from PRD and PAN senators.

Sen. Juan Antonio Garcia Villa, speaking on behalf of the PAN delegation in the Senate, questioned whether the central bank could maintain its independence with one of Zedillo's closest advisors at the helm. Garcia also criticized the decision to present Ortiz's nomination on the last day of the legislative session. "There was very little time to learn about Ortiz's competence to head the Banco de Mexico," said the PAN senator. For its part, the PRD said Ortiz's nomination was a sign of Zedillo's intention to push forward an orthodox neoliberal economic agenda. "Ortiz has been a strong proponent of the harmful structural economic adjustments imposed on our country by the International Monetary Fund," said PRD Sen. Jorge Calderon Salazar.

In a press conference on Dec. 16, Ortiz responded to concerns about the central bank's independence, emphasizing that the Banco de Mexico "would not play any partisan role." On the other hand, he said the institution would not remain out of the political arena altogether. "The central bank will remain an active participant in economic debates, placing a high priority on reducing inflation and improving the living conditions of the population," said Ortiz. Ortiz's nomination came as a mild surprise, since many had expected deputy governors Francisco Gil Diaz or Jose Sidaoui to succeed Miguel Mancera as chief governor (see SourceMex, 10/08/97).

Mancera, who has headed the central bank since the early 1980s, has reached the mandatory retirement age of 65. Gil Diaz, who many considered the front-runner for the post, announced his resignation from the central bank the same day Zedillo announced Ortiz's nomination. Gil Diaz cited opportunities in the private sector for his decision to leave. The quick Senate approval means Ortiz will take over the helm of the central bank on Jan. 1, 1998. According to sources close to the Zedillo administration, Foreign Relations Secretary Jose Angel Gurria and Communications and Transportation Secretary Carlos Ruiz Sacristan are the leading choices to succeed Ortiz as finance secretary. [Sources: El Nacional, 12/08/97; Financial Times (London), 12/09/97; Notimex, 12/02-05/97, 12/10/97, 12/11/97; Reuter, 12/02/97, 12/04/97, 12/08/97, 12/11/97, 12/14/97, 12/15/97; Diario de Yucatan, 12/05/97, 12/09/97, 12/15/97; El Financiero International, 12/08/97, 12/15/97; Associated Press, 12/15/97; New York Times, 12/15/97, 12/16/97; El Economista, 11/26/97, 11/28/97, 12/01-05/97, 12/08-12/97, 12/15-17/97; Excelsior, 11/28/97, 12/02-05/97, 12/08-12/97; 12/15-17/97; El Universal, Novedades, La Jornada, 12/01-05/97, 12/08-12/97, 12/15-17/97; The News, 12/05/97, 12/09/97, 12/11/97, 12/15-17/97]

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