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In mid-January, Finance Secretary Jose Angel Gurria Trevino announced a 15 billion pesos (US$1.81 billion) reduction in the federal budget for 1998 to offset a sharp decline in the international price of crude oil. The budget cut, about 0.4% of Mexico's projected GDP for 1998, was Gurria's first major action since his appointment in early January to replace Guillermo Ortiz as head of the Secretaria de Hacienda y Credito Publico (SHCP).

Speaking at a press conference on Jan. 14, Gurria said the sharp downturn in oil prices since the beginning of the year forced him to act. As of mid-January, the two benchmark prices for crude oil West Texas Intermediate and the North Sea Brent grades had fallen to about US$14.80 per barrel, compared with US$18.80 per barrel at the end of 1997. The Mexican government originally based its budget on an average annual price for Mexican crude of US$15.50 per barrel. The price drop, however, has brought Mexican crude to about US$13.50 per barrel.

Decision based on sharp decline in global oil prices

The Mexican government reduced the proposed budget since prices are expected to remain depressed throughout 1998. SHCP estimates show the Mexican Treasury stands to lose nearly US $2 billion this year. "Mexico risks losing about US$1.9 billion during the year if the price of our crude-oil exports remains at US$13.50 per barrel," the SHCP statement said. Income from oil exports accounts for about 42% of the Mexican government's revenues. Roughly 80% of exports are shipped to the US market.

The state-run oil company PEMEX has yet to release export projections for this year, but unofficial forecasts indicate that shipments will probably increase at the same rate as production. PEMEX estimates that crude-oil output will grow by about 9.5% during 1998. Gurria said Mexico could compensate for the price decline by increasing exports to about 2 million barrels per day. But critics say such policy is shortsighted, since any major increase would add to the world's oversupply of crude oil and ultimately keep prices depressed. "The policies followed by our government through PEMEX have been destructive," said researcher John Saxe-Fernandez of the Universidad Autonoma Nacional de Mexico (UNAM).

Saxe-Fernandez said production increases benefit the US, which wants Mexico to remain a supplier of inexpensive crude oil. Another UNAM specialist, Antonio Rojas, said the Zedillo administration is at fault, since it based its budget on an average oil price of US$15.50 per barrel, but international prices have been deteriorating since January 1997. The SHCP said the budget reduction would have only a minimal impact on the country's projected economic growth. The Zedillo administration expects to release revised macroeconomic statistics at the end of March. Unofficially, Gurria projects Mexico will still attain 5% growth this year, compared with estimates of 5.2% growth prior to the budget reduction. Preliminary estimates give Mexico a 7% growth rate in 1997.

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SHCP says social-welfare programs to remain intact

The finance secretary also pledged that the budget reduction will have little or no impact on education, health, nutrition, employment, rural assistance, and other anti- poverty and social-development programs. Deputy finance secretary Santiago Levy admitted the reduction will impede the federal government's pledge to give more funds to state and local governments. Levy estimated that such allocations will be reduced by about 1.5 billion pesos (US$180 million), but he pointed out that federal expenditures will be reduced by 12.3 billion pesos (US$1.48 billion).

The SHCP must still release details of the reductions. However, the government announced that scheduled increases in federal salaries will be postponed. "We need at least two weeks to finalize the document explaining every one of our cuts," said Levy. In Congress, members of the opposition Partido de la Revolucion Democratica (PRD) have asked congressional leaders to schedule a special session to examine the planned spending reductions. One influential PRD legislator, Sen. Rosa Albina Garavito, said her calculations indicate the drop in petroleum prices should translate to a revenue decline of only 11.4 billion pesos (US$1.38 billion), and not the 15 billion pesos (US$1.81 billion) projected by the government. She questioned whether the governing Partido Revolucionario Institucional (PRI) would use the difference of 4 billion pesos (US$484 million) for unauthorized purposes, such as funding PRI candidates in upcoming state elections.

PEMEX is expected to reduce its budget for the coming year by about 6%. Director Adrian Lajous acknowledged the drop in oil prices will slow PEMEX expenditures, particularly for exploration. The cuts are not expected to affect Mexico's foreign debt payments in 1998, given the huge foreign-currency reserves in the Mexican Treasury. Reserves stood at about US$19.8 billion at year-end 1997. Payment on Mexico's private and public foreign debt is estimated at US$14.2 billion this year, but the government owes only about US$4.5 billion. The largest government debt payment due this year is the US$1.2 billion to US$1.3 billion owed by PEMEX. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 21, reported at 8.26 pesos per US$1.00] (Sources: Reuter, 01/14/98, 01/15/98; Diario de Yucatan, El Nacional, Spanish news service EFE, 01/15/98; El Universal, 01/08/98, 01/14-16/98; The News, 01/09/98, 01/15/98, 01/16/98; Novedades, 01/14-16/98; La Jornada, 01/15/98, 01/16/98; Proceso, 01/18/98; Excelsior, 01/15/98, 01/16/98, 01/19/98; El Economista, 01/15/98, 01/16/98, 01/19/98; El Financiero International, 01/19/98; Notimex, 01/14-16/98, 01/20/98)

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