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President Ernesto Zedillo's administration is considering a new round of budget cuts to compensate for a recent sharp decline in oil-export revenues that is expected to last the rest of this year. The decline in revenues is attributed to a slump in the global crude-oil market. The administration had formulated its 1998 budget based on an average export price of US$15.50 per barrel this year. But Mexican crude sold at an average of US$11.82 in January, US$10.81 in February, and US$9.96 in the first 10 days of March.

For now, the state-run oil agency PEMEX is projecting an average export price of US$13.50 per barrel for Mexican crude oil this year, based on a recovery in the second half of 1998. PEMEX expects oil prices to improve to US$14.46 per barrel in the third quarter and US$14.97 in the fourth quarter. Deputy finance secretary Tomas Ruiz said the recovery is widely expected because of tight inventories in the US, Mexico's principal importer of crude oil.

Because of the lower global prices, the administration already made US$1.8 billion in budget cuts earlier this year (see SourceMex, 01/21/98). Some economists say a second budget reduction is inevitable. "The price for Mexican crude oil is sufficiently low to warrant another budget reduction this year," said Salvador Ceron Aguilar, a researcher for the Instituto Panamericano de Alta Direccion de Empresa (IPADE).

Finance secretary expects decision by early

April Finance Secretary Jose Angel Gurria Trevino said the government will not make a final decision regarding a second budget reduction until after the next meeting of the Organization of Petroleum Exporting Countries (OPEC). "We will consider market conditions at the end of March or the beginning of April and make a decision based on the best information available," Gurria told reporters at a conference sponsored by the Inter-American Development Bank (IDB) in mid- March.

Despite Gurria's caution, the Zedillo administration is clearly prepared to announce further cuts. The finance secretary's comments coincided with projections released by the Secretaria de Hacienda y Credito Publico (SHCP) showing the Mexican treasury stands to lose as much as US$26 billion if the price of crude oil declines to about US$12 per barrel. Gurria acknowledged that the economy remains very vulnerable to the global oil market because the oil sector brings in about one-third of Mexico's total fiscal revenues. The government has already taken steps to compensate for the impact of lost oil revenues on the federal budget, including stricter tax collections, an increase in internal debt issues, and tight controls on the peso-dollar exchange. Two of those steps were taken by the Banco de Mexico (central bank), under the direction of former finance secretary Guillermo Ortiz Martinez.

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The bank's first action in February was to increase the issues offered at the weekly auctions of 28-day Treasury certificates (CETES) by about 8 million pesos (US$934 million). Antonio Castro, director of the Centro de Analisis y Proyecciones Economicas para Mexico (CAPEM), said the increase in CETES offerings could boost government revenues in the short term. Central bank moves to tighten money supply In early March, the central bank announced temporary steps to reduce the money in circulation by about 20 million pesos (US$2.33 million). The strategy is intended to counter the negative impact of low oil prices and the Asian financial crisis on the trade and current account deficits, stabilize the value of the peso, and bring inflation under control in the long term.

The bank acknowledged the policy will increase interest rates in the short term, but this will not result in any major increases in the consumer price index (Indice Nacional de Precios al Consumidor, INPC). Earlier this month, the bank reported the INPC at 1.75% for February, bringing the accumulated inflation rate for January-February at 3.93%.

Economists said steps to control inflation in the long term were necessary to prevent a sudden devaluation of the peso, which would have a devastating impact on the Mexican economy. "The move will strengthen the peso and help the government achieve inflation targets [of 12%] for 1998," said Jorge Mariscal, head of analysis at Goldman Sachs Mexico. The central bank's action came under strong criticism from the center-left opposition Partido de la Revolucion Democratica (PRD). "This plan will slow economic growth, increase the cost of borrowing, and reduce the rates of new investment and employment," said PRD president Andres Manuel Lopez Obrador.

The recent decline in oil prices has led some economists and labor organizations to question Mexico's long-term oil strategy. One independent labor organization, the Movimiento Nacional Petrolero (MNP), is urging the government to expand its oil-refining capacities, which would help boost revenues. "We can sell a barrel of crude oil for US$13 or a barrel of the refined product for a much higher amount," said MNP president Hebraicas Vazquez Gutierrez.

For the short term, the MNP urged the Zedillo administration to work more closely with OPEC members and other independent producers like Russia and Norway to halt the slide in global crude-oil prices. "Otherwise, we will continue to sell more than 1 million barrels of oil per day to the US at very low prices," said Vazquez. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Mar. 17, reported at 8.56 pesos per US$1.00] (Sources: Agence France-Presse, 03/11/98; El Diario de Yucatan, Spanish news service EFE, 03/12/98; Proceso, Bloomberg News service, 03/15/98; Notimex, 03/09/98, 03/11/98, 03/16/98; Reuter, 03/09/98, 03/11/98, 03/12/98, 03/16/98; Excelsior, The News, 03/10/98, 03/12/98, 03/13/98, 03/16/98; El Universal, 03/12/98, 03/13/98, 03/16/98; El Financiero International, 03/16/98; Novedades, 03/10/98, 03/13/98, 03/16/98, 03/17/98; El Economista, 03/12/98, 03/13/98, 03/16/98, 03/17/98; La Jornada, 03/13/98, 03/17/98)

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