Government Confirms Second Reduction in 1998 Budget

LADB Staff

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

Recommended Citation
Government Confirms Second Reduction in 1998 Budget

by LADB Staff
Category/Department: Mexico
Published: 1998-03-25

On March 24, the Secretaria de Hacienda y Credito Publico (SHCP) announced a second budget reduction this year because of the sharp decline in global oil prices. Finance Secretary Jose Angel Gurria Trevino said the government will cut another 9 billion pesos (US$1.05 billion) from the federal budget, on top of the US$1.8 billion reduction announced at the beginning of 1998 (see SourceMex, 01/21/98).

Gurria said the government will compensate for the latest cuts by reducing the amount devoted to public projects this year. The SCHP is expected to announce specific reductions by mid- to late April. The secretary said, however, that the reduction would have no direct impact on planned expenditures for social programs and support for states and municipalities.

Gurria said the government was maintaining its projections for a 5% GDP growth this year, but "external factors" could have a negative influence on the economy. In early March, an unofficial estimate from the Banco de Mexico (central bank) projected Mexico's GDP growth at 4.8% this year because of the effects of low global oil prices. Economists had widely anticipated the latest budget reduction, since Mexico's export prices for crude oil had declined to US$9.00 per barrel in early March, the lowest level in 14 years (see SourceMex, 03/18/98).

The latest budget reduction anticipates an average export price for Mexican crude oil this year of US$12.50 per barrel, about US$3 per barrel below the government's initial projection. Mexico helps coordinate effort to cut global oil supply The new reductions were announced less than a week after Mexico reached a historic agreement with Saudi Arabia and Venezuela to reduce global supplies of crude oil by 2 million barrels per day to increase prices.

Mexican Energy Secretary Luis Tellez, Saudi Oil Minister Ali Nami, and Venezuelan Oil Minister Erwin Arrieta reached the agreement at a meeting in the Saudi capital of Riyadh. Six other countries Iran, Kuwait, the United Arab Emirates, Nigeria, Libya, Oman, and Algeria agreed to join the effort. Russia, Norway, and Qatar were also considering reductions in production and exports. Oil prices on the global markets immediately increased by about US$2 per barrel following the announcement.

Under the agreement, members of the Organization of Petroleum Exporting Countries (OPEC) committed to the greatest reductions in output and exports. Mexico agreed to lower exports by 100,000 bpd, effective April 1, with its exports the rest of the year expected to average about 1.74 million bpd. However, Mexico did not make any specific commitments to reduce production levels, which have averaged 3.2 million bpd so far this year. On a related matter, an independent audit commissioned by the state-run oil company PEMEX showed Mexico's reserves of oil equivalent at about 60.1 billion barrels at the start of this year, a decline of about 9 billion barrels from levels reported at the beginning of 1988. Oil equivalent is a standard measurement used to calculate
supplies of oil, natural gas, and condensates such as butane and propane. Roughly 42 billion barrels of the reserves were crude oil.

The report said Mexico has sufficient reserves of crude oil to cover 40 years of production at current levels. PEMEX's own audit last year suggested reserves were sufficient to cover 43 years of production. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on March 25, reported at 8.52 pesos per US$1.00] (Sources: El Nacional, 03/19/98; Notimex, 03/18/98, 03/22/98; Associated Press, 03/22/98; The Dallas Morning News, 02/24/98, 03/23/98; Reuter, 03/19/98 03/20/98, 03/22/98, 03/23/98; The New York Times, Spanish news service EFE, 03/23/98; El Economista, 03/19/98, 03/23-25/98; Novedades, 03/19/98, 03/20/98, 03/23-25/98; The News, 03/20/98, 03/23-25/98; Excelsior, El Universal, 03/23-25/98; La Jornada, 03/19/98, 03/24/98, 03/25/98)

-- End --