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The Mexican economy is expected to weaken considerably during the rest of 1998 because of a continued slump in global oil markets and the impact of the economic crises in Asia and Russia. The weakness would follow a surprisingly strong GDP growth of 6.6% during the first quarter of the year. A mid- May report from the Secretaria de Hacienda y Credito Publico (SHCP) attributed the GDP growth for January-March primarily to strong activity in the construction, services, and industrial sectors.

In response to the GDP report, some administration officials, including Trade Secretary Herminio Blanco, have predicted the Mexican economy will continue to grow in the next several months, although at a slower pace. "The GDP growth for the first quarter has created a solid basis for Mexico's annual growth rate to reach 5% during 1998," Blanco told reporters.

But private economists counter that the administration's economic projections are at best "overly optimistic" because of a reduction in public finances and continued weakness in global oil prices, which has reduced oil-export revenues by more than 20% since the start of 1998. The lower oil-export revenues have already forced President Ernesto Zedillo's administration to reduce this year's federal budget twice (see SourceMex, 01/21/98 and 03/25/98).

Private economist Jonathan Heath said the 6.6% growth reported for the first quarter of the year is distorted because there were more work days this year relative to a year ago. Holy Week, when productivity grinds to a halt, fell in the first quarter of 1997, but occurred in the second quarter of 1998. Because of lower global oil prices and repercussions from weak Asian and Russian economies, Heath projected Mexico's GDP growth for 1998 will fall closer to 3.2%.

The Zedillo administration has pointed out that Mexico has a diverse economy, which has reduced its vulnerability to developments in global oil markets. But statistics published by the SHCP earlier this year showed that oil-export earnings represented about 31.9% of the government's total revenues. Furthermore, the growth statistics do not reflect an improvement in the economic status of most Mexicans. Statistics published by the government's Instituto Nacional de Estadistica, Geografia e Informatica (INEGI) in late May showed per capita GDP only US$4,429 in the first quarter of the year.

In contrast, per capita GDP was US$4,802 in the first quarter of 1994, almost a year before the government devalued the peso. Meantime, Ricardo Platt Garcia, president of the Camara Nacional de la Industria de Construccion (CNIC), disputed the government's statistics for growth in the construction sector during January-March. Although the SHCP reported a 10.2% GDP growth for the construction sector, Platt Garcia said the construction industry actually experienced a negative

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growth rate in the first quarter because federal budget cuts reduced spending on public-works projects.

Decline in oil-export revenues tightens budget surplus

Partly as a result of the lower oil-export revenues, Mexico's budget surplus narrowed to only 1.7 billion pesos (US$193,000) in the first quarter of the year, compared with a surplus of about 9 billion pesos (US$1.02 billion) for the same period in 1997. The narrower budget surplus was also attributed to the privatization of the pension program, which channeled worker retirement funds to the Administradoras de Fondos al Retiro (AFOREs) rather than to the government. The decline in oil-export revenues has also forced the Banco de Mexico (central bank) to modify its forecast for Mexico's current account deficit for this year.

In late May, the bank's chief governor Guillermo Ortiz Martinez raised the estimate for the current account deficit to US$15 billion for this year. At the beginning of the year, it had been projected at US$13 billion. In contrast, the deficit was only US$7.4 billion in 1997. Because of continued weakness in global oil markets, the Zedillo administration has left open the possibility for a third budget reduction this year.

While the SHCP has emphasized that such a reduction is not imminent, the administration continues to cite the need to expand the government's coffers to proceed with important public-works projects and anti-poverty programs. "We cannot postpone public investments and reduce social programs," said deputy finance secretary Tomas Ruiz. "Therefore, we must implement some fiscal reform that will enable us to collect unpaid taxes more efficiently." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on June 3, reported at 8.80 pesos per US$1.00] (Sources: La Jornada, 05/13/98; Novedades, 05/15/98; The Dallas Morning News, 05/20/98; The News, 05/15/98, 05/20/98; El Economista, 05/20/98; El Diario de Yucatan, 05/26/98; El Universal, 05/14/98, 05/20/98, 05/27/98, 05/28/98; Excelsior, 05/20/98; El Financiero International, 05/18/98, 06/01/98

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