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On July 8, President Ernesto Zedillo's administration announced plans to reduce federal expenditures by another 5.5 billion pesos (US$62 million) to compensate for a sharp decline in revenues from crude-oil exports. This is the administration's third adjustment to the 1998 budget, which has been reduced by a total of 29 billion pesos (US$3.27 billion) since the start of the year. The administration announced budget reductions of 15.1 billion pesos (US$1.7 billion) in January and 9 billion pesos (US$1.01 billion) in March (see SourceMex, 01/21/98 and 03/25/98).

In announcing the latest reduction, Finance Secretary Jose Angel Gurria Trevino said the government was forced to lower federal expenditures a third time because the two previous budget cuts were insufficient to offset an unexpected shortfall of 9.8 billion pesos (US$1.10 billion) in oil-export revenues. The government, which obtains 40% of its revenues from petroleum exports, has reduced its forecasted price for crude oil to US$11.50 per barrel.

The 1998 budget, which was drafted in late 1997, was based on an average crude-oil price of US $15.50 per barrel. Still, Gurria said the administration was able to limit the third budget cut to about 5.5 billion pesos (US$62 million) because of a greater-than-expected tax-collection rate and revenues obtained from the privatization of the southeast rail line and radio-wave spectrums. The Mexican engineering company Tribasa paid US$2.9 billion for a 50-year concession for the southeastern railroad, which connects Mexico City with Veracruz and Yucatan states (see SourceMex, 07/08/98).

Latest cuts to primarily affect PEMEX operations

The third budget reduction is expected to affect the state-run oil company PEMEX in particular. The government plans to curtail PEMEX expenditures by another 2.55 billion pesos (US$288 million) by postponing exploration activities and placing new investments on hold. Among other things, the modernization and upgrade of PEMEX refineries in Salina Cruz, Oaxaca state, and Minatitlan, Veracruz state, have been suspended indefinitely. The latest action will also affect the Comision Federal de Electricidad (CFE), although budget reductions will be much smaller than the previous cuts of 4.22 billion pesos (US$476 million) implemented in January and 2.6 billion pesos (US$293 million) in March.

CFE director Rogelio Gasca Neri said most cuts will involve administrative reductions and will not affect planned investments in electrical infrastructure. The rest of the budget reduction is expected to come from cuts in administrative expenditures for most federal departments. Gurria pledged that the budget cuts would have a minimal impact on expenditures for social programs, subsidies to cities and states, and law enforcement and anti-crime initiatives. "The reductions will not affect government programs designed to combat extreme poverty," Gurria told reporters. "We will also protect the budgets for the education and health secretariats, the Instituto Mexicano del Seguro Social (IMSS) and the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado

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(ISSSTE)." Legislators from all three major parties, including Zedillo's Partido Revolucionario Institucional (PRI), immediately denounced the reductions.

PRI Deputy Jorge Estefan Chidiac broke ranks with party leaders and questioned the administration's pledge to limit the impact of the budget reduction on social programs. Estefan Chidiac said social programs account for two-thirds of federal expenditures. But PRI national president Mariano Palacios Alcocer defended the budget reduction as a "responsible step" that would keep Mexico from "falling into a vicious cycle of budget deficits." As expected, the opposition Partido de la Revolucion Democratica (PRD) and Partido Accion Nacional (PAN) criticized the reduction as "irresponsible."

Dolores Padierna, a member of the center-left PRD, said the administration should have made the cuts in areas other than PEMEX, such as the armed forces and the bank-rescue fund (Fondo Bancario de Proteccion al Ahorro, FOBAPROA). "We have reached our limit," said Padierna. "We cannot keep passing the weight of economic problems on to the general population." PRD Sen. Rosa Albina Garavito said the latest budget crisis provides the government with the opportunity to change its economic policies. "A new economic strategy should focus on the creation of conditions that promote stable and just growth," said Garavito.

Deputy Carlos Medina Plascencia, coordinator of the PAN delegation in the Chamber of Deputies, said his party will propose an initiative in the next legislative session to require the president to consult with Congress before making major budget adjustments. The PAN and the PRD agreed that the third budget cut should target excessive expenditures for the Secretaria de Defensa Nacional (SEDENA). But the PAN also called for the government to reduce excessive administrative expenditures for other secretariats, such as the Secretaria de Hacienda y Credito Publico (SHCP) and the Secretaria de Gobernacion (SEGOB). Budget shortfalls could force tax reforms

For the long term, Deputy Medina Plascencia and Sen. Gabriel Jimenez Remus, who heads the PAN delegation in the Senate, also proposed a comprehensive tax reform. The two PAN leaders said tax reform would cut down on evasion, which would increase revenues available to the government. Some economists agree the recent budget shortfalls will force the government to deal with its longstanding problem of tax evasion. Critics have accused the government of maintaining tax rates at excessive levels and, at the same time, allowing widespread evasion and underpayment. "I have the strong sense that the government is keen to make Congress and the country's politicians aware that fiscal reform is a key item on the agenda," said Chip Brown, Latin American economist at Morgan Stanley Dean Witter in New York.

SHCP sources said the administration is preparing a tax- reform bill to send to Congress in September in an effort to boost collection rates. Mexico's tax-collection level is one of the lowest among members of the Organization for Economic Cooperation and Development (OECD). Some PRI legislators said party leaders may also be willing to go along with another increase in the value-added tax (impuesto al valor agregado, IVA) to boost government revenues. "We have to find a way to increase the IVA without creating hardships for the most impoverished segments of the population," said PRI Deputy Laura Alicia Garza Galindo.

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Another measure proposed by economists and politicians to deal with the budget shortfalls is the creation of a special fund (Fondo de Estabilizacion Petrolera). Deputy energy secretary Jorge Chavez Presa said the fund would compensate for the "inevitable downward cycles in global oil markets." Meanwhile, the administration has not totally discarded the possibility of further budget cuts this year if global oil prices remain depressed. "Everything will depend on oil prices," said deputy finance secretary Martin Werner. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on July 15, reported at 8.85 pesos per US$1.00] (Sources: Reuters, 07/06/98, 07/09/98; The Dallas Morning News, 07/09/98; The New York Times, 07/09/98; El Diario de Yucatan, 07/09/98; Novedades, 07/07-10/98, 07/13/98; El Universal, El Economista, 07/08-10/98, 07/13/98; Bloomberg News, 07/13/98; El Financiero International, 07/13/98; The News, 07/09/98, 07/14/98; Excelsior, 07/09/98, 07/14/98, 07/15/98; La Jornada, 07/09/98, 07/10/98, 07/14/98, 07/15/98)

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