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President Ernesto Zedillo's administration has encountered significant difficulties in drafting its proposed 1999 budget because of the turmoil in global economic markets and the continuing weakness in crude-oil prices. By law, the administration must present its budget proposal to the Chamber of Deputies by mid-November.

In testimony before the Chamber of Deputies, Finance Secretary Jose Angel Gurria Trevino said the Secretaria de Hacienda y Credito Publico (SHCP) has not decided whether to propose new taxes to enhance the government's revenues but he pledged to maintain strict discipline in public finances. Gurria's comments echoed earlier statements by deputy finance secretary Santiago Levy, who told reporters that the government's 1999 budget proposal would be "austere."

Administration, Congress announce cooperation accord

Mexico's economic instability has been fueled by disagreements between the executive branch and members of opposition parties in Congress regarding economic proposals offered by President Zedillo. The main point of disagreement has been the proposal to transfer the liabilities in the bank- rescue fund (Fondo Bancario de Proteccion al Ahorro, FOBAPROA) to the public debt (see SourceMex, 08/26/98). In early September, the Zedillo administration and leaders of the five parties represented in the Chamber of Deputies reached an agreement that could resolve the FOBAPROA dispute.

In a five-hour meeting at the Secretaria de Gobernacion (SEGOB), Cabinet secretaries and legislative leaders agreed to create two FOBAPROA commissions to reconcile various positions on the bank-rescue fund. One commission would examine legal questions, while the other panel would look at financial aspects of FOBAPROA. The Cabinet members and legislative leaders also agreed to consider nine points related to Mexico's banking and financial system, including measures to ease the debt burden for small and medium-sized business and mortgages. "We decided to expedite a solution to our disagreements," said a statement from the participants. "The Mexican financial system must remain solid to face the negative impact from external markets."

Fourth reduction in 1998 budget still possible

Levy and other administration officials said the uncertainty in world financial markets and weak global oil prices could force the administration to reduce the 1998 budget a fourth time this year. The Zedillo administration implemented budget cuts in January, March, and July (see SourceMex, 01/21/98, 03/25/98, 07/15/98). "We have not ruled out a fourth budget reduction this year," said Levy. At the same time, the SHCP official said President Zedillo's economic Cabinet does not want to make any "hurried" decisions and will wait to see how the global financial markets evolve in the coming weeks.

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In an interview with the daily newspaper Excelsior, Energy Secretary Luis Tellez offered reassurances that any further budget cuts would leave social programs intact. "We have an adequate cushion to meet our country's social needs," Tellez said. The administration made those same claims in July when the third budget reduction was announced. However, an analysis of cuts by the daily business newspaper El Economista showed that the administration made unannounced reductions in the budgets for key departments, including the foodstuffs agency (Compania Nacional de Subsistencias Populares, CONASUPO), the Secretaria de Desarrollo Social (SEDESOL), the Secretaria de Educacion Publica (SEP), and the rural assistance program Programa de Educacion, Salud, y Alimientacion (PROGRESA). The newspaper calculates that the administration cut 1.2 billion pesos (US$119 million) from the four entities despite its pledge "not to touch programs that help people." The brunt of the cuts was made in CONASUPO through the elimination of a subsidy for tortillas.

Some multilateral institutions are concerned that the Mexican government may cut social programs further if the economic crisis worsens. At a forum in Mexico City in early September, economists Jose Luis Gausch of the World Bank and Jean Manimat of the International Labor Organization (ILO) said a prolonged global financial crisis could reduce the government's ability to fund social programs. "The fight against poverty could be hampered by a complicated financial picture, which could leave the government with tight resources," said Gausch. In addition to tighter tax collections and budget reductions, the administration's plan to raise revenues will almost certainly include an increase in prices for water, gas, and other public services. "With current oil prices, it will be difficult to avoid an increase in prices and tariffs," said Bancomer analyst Carlos Samano.

The Zedillo administration has already allowed the price of some basic goods to increase, including beans, cooking oil, tortillas, and milk. For example, in June the Secretaria de Comercio y Fomento Industrial (SECOFI) approved an 18% increase in tortilla prices (see SourceMex, 06/03/98).

Labor groups call for emergency salary increase

A report released in late August by Mexico's principal labor organizations said the purchasing power of Mexicans had declined about 50% between December 1994 and June 1998. The report was commissioned by mainstream labor organizations such as the Confederacion de Trabajadores de Mexico (CTM) and Union Nacional de Trabajadores (UNT) and independent groups like the Frente Autentico de Trabajadores (FAT).

The report said the minimum wage as of June could only purchase about 42% of the basic basket of goods of December 1994. To compensate for increased costs of services, some labor organizations have demanded an emergency salary increase of 20%. But Labor Secretary Jose Antonio Gonzalez Gutierrez has discarded such a move because it would cause many small and medium-size businesses to go bankrupt. "The worst-case scenario for workers is a massive loss of jobs," said Gonzalez. Meanwhile, the Banco de Mexico (central bank) reported the consumer price index (Indice Nacional de Precios al Consumidor, INPC) rose by 0.96% in August, bringing accumulated inflation for January-August to 10.37%. Because of the continuing weakness in the peso, SECOFI has forecast the INPC for September to rise by at least 1%. But Israel Gutierrez Guerrero, a deputy trade secretary, said even though accumulated inflation could surpass 11% for January-September, the administration has no plans to modify its forecast of 12% for this year's annual inflation. Some

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private economists are already projecting annual inflation above 15%. For example, the Instituto Mexicano de Ejecutivos de Finanzas (IMEF) predicts annual inflation could approach 17% if the Mexican currency remains weaker than 10 pesos per US$1.00 the rest of the year. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Sept. 16, reported at 10.06 pesos per US$1.00] (Sources: Proceso, 09/06/98; Reuters, 08/23/98, 08/26/98, 09/08/98, 09/09/98; Spanish news service EFE, 09/14/98; Novedades, 08/24/98, 08/27/98, 08/31/98, 09/03/98, 09/08/98, 09/10/98, 09/15/98; The News, 09/03/98, 09/15/98; El Economista, 09/03/98, 09/08/98, 09/09/98, 09/11/98, 09/15/98; Excelsior, 09/03/98, 09/09/98, 09/10/98, 09/11/98, 09/15/98; El Universal, 09/08/98, 09/15/98; La Jornada, 09/08/98, 09/11/98, 09/15/98)

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