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In a draft of the 1999 federal budget, President Ernesto Zedillo's administration proposed reducing Mexico's public expenditures to their lowest levels since the early 1980s. Finance Secretary Jose Francisco Gurria Trevino is scheduled to present the final version of the budget to the Chamber of Deputies by Nov. 15.

The lower house has until Dec. 15 to approve the budget. Preliminary information released by the Secretaria de Hacienda y Credito Publico (SHCP) indicates the administration has set next year's public expenditures at slightly more than 1 trillion pesos (US$100 billion), the equivalent of about 15% of Mexico's annual GDP, the lowest percentage of annual GDP since 1981. Federal expenditures for 1998 are projected at 15.5% to 15.7% of GDP, taking into account three budget reductions implemented this year (see SourceMex, 01/21/98, 03/25/98, 07/15/98).

Deputy finance secretary Santiago Levy said the administration considered a number of macroeconomic projections to develop the budget, including GDP growth of 3% and annual inflation of 17% during 1999. In comparison, GDP growth is forecast at 4.5% this year. Also, the government had originally targeted annual inflation at 12% for 1998, but most private economists estimate the rate will be closer to 16% or 17%. Weak global oil market is a factor in budget proposal The continuing weakness in the global oil market also contributed heavily to the administration's austere budget for 1999.

According to Levy, the administration is projecting the average price of Mexican crude-oil exports at US$11.50 per barrel during 1999. In drafting the 1998 budget, the administration had projected Mexico's average oil-export prices at US$15.50 per barrel. Instead, prices for the first eight months of this year have averaged about US$10.43 per barrel, which weighed heavily in the three budget cuts announced earlier this year. An increase of US$1.00 per barrel in oil prices next year could raise as much as 250 billion pesos (US$25 billion) in revenues for the government, said Levy.

Of the 1 trillion pesos (US$100 billion) allocated for the 1999 budget, 670 billion pesos (US$67 billion) will be devoted to federal government operations, with another 150 billion pesos (US$15 billion) earmarked for state and municipal governments. The remaining 180 billion pesos (US$18 billion) will be used to make scheduled payments on Mexico's foreign debt.

With the tight budget, the government aims to reduce its reliance on oil-export revenues without significantly affecting most expenditures, raising the fiscal deficit, or contracting more debt. Levy said the government will limit the public deficit to 1.5% of GDP next year, compared with the projected deficit of 1.25% for 1998. The SHCP estimates that direct government expenditures during

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1999 will decline by about 20 billion pesos (US$2 billion) in real terms from this year's levels. But two of Mexico's largest business organizations, the Camara Nacional de la Industria de Transformacion (CANACINTRA) and the Confederacion Nacional de Camaras Industriales (CONCAMIN) have strongly opposed the administration's proposed reduction in expenditures. They say the tighter budget will mean reductions for roads and infrastructure, which will cause plant closures, increased unemployment, and lower industrial growth.

Proposal begins to reduce size of foodstuffs agency

While President Zedillo and Cabinet officials insist that social programs will not be affected, the administration has already announced planned cuts in key social programs. In early November, the administration took steps to reduce the size of the state-run foodstuffs agency (Compania Nacional de Subsistencias Populares, CONASUPO) by closing down 19 of its 32 offices nationwide and laying off 2,400 employees, effective the beginning of 1999. The decision to downsize CONASUPO has been strongly criticized by members of opposition parties, a coalition of Mexican governors, and the federal workers union (Federacion de Sindicatos Trabajadores de Servicio del Estado, FSTSE). Jose Luis Canas Lopez, who heads the CONASUPO unit of the FSTSE, called the administration's cutbacks "arbitrary and unconstitutional."

By cutting back on CONASUPO, the administration is "turning its back" on its policies of supporting the poorest members of society, said Canas Lopez. Other critics agree the CONASUPO layoffs are the first step in a government plan to eliminate the agency altogether. In a recent interview with reporters, deputy finance secretary Levy said President Zedillo may want to keep CONASUPO operating for two more years while its corn-storage and sales functions are transferred to the public sector. As part of its plan to reduce CONASUPO, the administration proposed expanding other anti-poverty programs managed by the Secretaria de Desarrollo Social (SEDESOL).

But opposition legislators, including Deputy Alfonso Raya of the center-left Partido de la Revolucion Democratica (PRD), contend this merely transfers CONASUPO subsidies to more visible programs like Procampo, Progresa, and Aserca, which would boost the advantage of the governing Partido Revolucionario Institucional (PRI) during the 2000 presidential election. The PRD and other opposition parties have also questioned the administration's reduction of government expenditures on CONASUPO while allocating 35 billion pesos (US$3.5 billion) for the controversial bank rescue fund (Fondo Bancario de Proteccion al Ahorro, FOBAPROA).

Critics argue that the CONASUPO reduction in effect forces the poorest segments of society to pay to rescue wealthy bankers and business owners. Legislation to deal with the 552 billion pesos (US $55.2 billion) incurred under the FOBAPROA program remained stalled in the Chamber of Deputies as of early November (see SourceMex, 11/04/98).

In the draft of the 1999 budget, the administration has also proposed increased costs for government services, either through increased fees or eliminated subsidies. Electricity is among the services targeted for reduced subsidies, said the SHCP. Administration rejects immediate increase in value-added tax Levy said the budget proposal also projects an increase of 470 billion pesos (US$47 billion) in tax revenues next year, the equivalent of 10% of Mexico's annual GDP. The SHCP expects to obtain some of the increase in tax revenues through stricter tax collection and closing tax loopholes.

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An SHCP study indicates more than one-third of Mexican businesses fail to pay applicable value-added taxes (impuesto al valor agregado, IVA).

Still, the higher revenues also translate to some tax increases, including restructuring the income-tax system (Impuesto Sobre la Renta, ISR) and possibly hiking the tax on new cars (Impuesto sobre Automobiles Nuevos, ISAN). The SHCP originally considered raising the IVA from its current 15% rate and charging a 7% tax on food and drugs, which are currently exempt from the IVA. But these proposals drew strong protests from agricultural and business organizations ranging from the Asociacion Mexicana de Tiendas de Autoservicio y Departamentales (ANTAD) to the Union Nacional de Avicultores (UNA). The organizations warned that such taxes would raise food prices, which would reduce the purchasing power of many lower-income Mexicans.

Legislators also opposed an IVA on food and medicines. In an interview with the daily newspaper Excelsior, Deputy Angel Aceves Saucedo, chair of the finance committee (Comision de Hacienda) in the Chamber of Deputies, warned the administration that the legislature will not approve a budget that implements taxes on food and medicine. In a press conference in early November, Finance Secretary Gurria said the government had decided not to consider any increases in the IVA in formulating the 1999 budget.

At the same time, Gurria told reporters the administration has left the door open to raising the IVA during the year, should it become necessary. "We will take steps to ensure a reasonable balance between income and spending, assuming that the fall in oil income and the scarcity of external resources are factors that will remain in force during next year," said Gurria. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Nov. 11, reported at 10.02 pesos per US$1.00] (Sources: Proceso, 11/08/98; El Financiero International, 11/09/98; El Universal, 09/29/98, 10/13/98, 11/02/98, 11/03/98, 11/04/98, 11/06/98, 11/09/98, 11/10/98; La Jornada, 10/28/98, 10/30/98, 11/05/98, 11/10/98; Reuters, 11/03/98, 11/05/98, 11/09/98, 11/10/98; The News, 11/06/98, 11/10/98; El Economista, 09/29/98, 10/06/98, 11/02/98, 11/10/98, 11/11/98; Excelsior, 10/07/98, 10/14/98, 10/16/98, 10/28/98, 11/02/98, 11/06/98, 11/10/98, 11/11/98)

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