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LADB Staff

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The Chamber of Deputies, led by a coalition from the governing Partido Revolucionario Institucional (PRI) and the center-right Partido Accion Nacional (PAN), averted a constitutional crisis by passing a budget for 1999. The budget was approved with 348 votes from the PRI-PAN coalition against the 133 votes of the center-left Partido de la Revolucion Democratica (PRD) and two minor parties, the Partido del Trabajo (PT) and the Partido Verde Ecologista Mexicano (PVEM).

The budget was approved after the PRI agreed to a PAN demand to eliminate a 15% surcharge on telephone service proposed in the original budget submitted by President Ernesto Zedillo to the legislature. To replace the telephone surcharge, the PAN-PRI coalition agreed to increase the tax on diesel by 5%, raise the income tax (impuesto sobre la renta, ISR) for corporations and wealthier Mexicans, and boost tariffs by 3% to 10% on imports from countries that do not have a trade agreement with Mexico. These taxes, combined with a series of new spending reductions, are intended to compensate for a shortfall of US$2.86 billion in oil-export revenues in 1999.

The Chamber of Deputies was forced to consider the budget during a special session of Congress because the lawmakers had failed to reach a consensus by the end of the regular legislative session on Dec. 15 (see SourceMex, 12/16/98). The legislators would have been in violation of the Mexican Constitution if they had failed to approve a budget by Dec. 31, and failure to pass a budget by that date would have paralyzed all government operations.

The PRD, PT, and PVEM opposed Zedillo's original budget plan and also voted against the compromise forged by the PRI- PAN coalition. "This budget package fails to resolve the problems created by our country's grave fiscal crisis and also contains measures that will hurt the poorest people," said PT legislative leader Ricardo Cantu. The PRD had offered an alternative budget proposal that recommended cuts of 18 billion pesos (US$1.84 billion) by eliminating unnecessary government programs and perks for government officials.

However, the PRD refused to bring its proposal to the negotiating table, fearing that the PRI and PAN would gut the plan. In the end, the final PRI-PAN compromise recommended only 1.4 billion pesos (US$143 million) in spending cuts.

Debt-ceiling for Mexico City source of controversy

Following passage of the budget, PRD leaders focused their attacks on a provision that would limit the Mexico City government's ability to incur debt. Mexico City, which has no taxation powers, relies extensively on federal budget allocations for its revenues. Under the 1999 budget, the Chamber of Deputies approved a debt ceiling of only 1.7 billion pesos (US$174 million) for the Mexico City government, instead of the 7.5 billion pesos (US$767 million) requested by PRD

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Mayor Cuauhtemoc Cardenas. The ceiling covers the cost of expanding the Mexico City subway and improving water distribution in the capital. PRI and PAN deputies said the remaining 5.8 billion pesos (US$593 million) requested by the Mexico City government was not approved because Mayor Cardenas had failed to specify how the money would be used.

PRD leaders immediately denounced the maneuver. Deputy Dolores Padierna, coordinator of the PRD's economic policy in the Chamber of Deputies, questioned how the government could approve 145 billion pesos (US$14.84 billion) in federal debt with no strings attached and yet attach conditions to a debt of only 7.5 billion pesos (US$767 million) for Mexico City.

PRD president Andres Manuel Lopez Obrador was more blunt, accusing the PRI and the PAN of "political revenge" against the PRD for failing to support President Zedillo's economic programs. "This was an irrational decision that will mainly harm the citizens of Mexico City," Lopez Obrador said. The protests by PRD leaders appeared to capture the attention of the PRI delegation in the Chamber of Deputies. In a meeting on Jan. 5, legislative leaders Porfirio Munoz Ledo of the PRD and Fidel Herrera of the PRI said the two parties had agreed in principle to allow Mexico City to incur the requested 7.5 billion pesos (US$767 million) debt ceiling.

A source close to the negotiations said the agreement intends to avert a halt to "vital public-works projects" proposed for the capital in 1999. PAN again breaks with opposition coalition Meanwhile, the PAN is facing strong criticism for its decision to align with the PRI on major policy decisions in the Chamber of Deputies. The PAN had formed an opposition coalition with the PRD, PT, and PVEM following the mid-term elections in July 1997 that ended PRI dominance in the Chamber of Deputies (see SourceMex, 07/06/97).

While the PAN has joined other opposition parties on minor legislative initiatives, it forged a coalition with the PRI in late 1997 to pass the 1998 budget (see SourceMex, 12/17/97). In December 1998, a PAN-PRI coalition approved legislation to bail out the troubled bank-rescue fund (Fondo Bancario de Proteccion al Ahorro, FOBAPROA) despite strong opposition from the PRD, PT, and PVEM. Political and economic observers differed on whether the PAN had gained or lost ground by forming the alliance with the PRI to pass the 1999 budget. "It's awfully hard to keep your cutting edge as the party of protest and be responsible [on budget issues] at the same time," Delal Baer, a researcher at the US-based Center for Strategic and International Studies, told the Associated Press.

Other analysts said the PAN's ability to force the PRI to abandon the 15% surcharge on telephone service could be interpreted as a victory for the center-right party. "The PAN is definitely a winner here," said independent Mexico City economist Jonathan Heath. But in an article published in early January, the weekly news magazine Proceso suggested the PAN "was fooling itself" into thinking it had the best interest of Mexican citizens in mind. Under the PAN-PRI compromise, government taxes will be 7.3 billion pesos (US$747 million) higher than under Zedillo's original proposal, said the article. Some dissident members of the PRI also questioned whether the governing party should be forging alliances with the PAN. "The PRI has origins in the left, not the right, and that's why we should make alliances with the left to meet social needs," said Genaro Morales for Corriente Renovadora, a dissident faction of PRI members in the Chamber of Deputies.

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Increase in diesel tax to boost inflation

Meanwhile, private economists raised concerns about the impact of the 5% increase in the diesel tax on the Mexican economy. Some economists say the higher diesel prices could increase Mexico's inflation for 1999 by a full percentage point. The increase will be even greater when combined with higher costs for basic consumer goods like tortillas, for which price controls were removed on Jan. 1, 1999.

In separate estimates published in early January, the Centro de Estudios Economicos del Sector Privado (CEESP), Grupo Banamex-Accival, and Grupo de Economistas y Asociados (GEA) forecast annual inflation for the year at 18% to 19%. In contrast, the Zedillo administration has targeted inflation in 1999 at 13%. Similarly, private economists said the austere budget will limit Mexico's GDP growth to 2.5% or less, compared with the 5.2% rate targeted by the Zedillo administration. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 6, reported at 9.77 pesos per US$1.00] (Sources: Associated Press, 12/30/98, 12/31/98; Proceso, 01/03/99; Reuters, 12/29/98, 12/31/98, 01/04/99; The News, 01/04/99, 01/05/99; El Economista, Novedades, Excelsior, El Universal, La Jornada, 12/31/98, 01/04-06/99)

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