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## **Annual Inflation Expected to Surpass Government Target Again in 1999**

*by LADB Staff*

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Mexico's annual inflation rate, which far surpassed expectations during 1998, is expected to exceed government targets again during the coming year. The Banco de Mexico (central bank) reported Mexico's annual inflation at 18.7% in 1998, or almost seven percentage points above the government's target of 12%. Consumer prices were particularly high in the last two months of the year. The central bank reported the consumer price index (Indice Nacional de Precios al Consumidor, INPC) at 1.75% in November and at 2.44% in December, accounting for almost one-fourth of the increase for the year.

The increase during the two-month period was driven in part by higher prices for fuel, particularly diesel and gasoline. Diesel prices are expected to increase further in early 1999. In the 1999 budget approved by the Chamber of Deputies in December, legislators agreed to increase diesel prices by 5% in exchange for eliminating a proposed surcharge of 15% on telephone service (see SourceMex, 01/06/99). In addition to more expensive fuel costs, consumers, particularly low-income Mexicans, have been saddled with higher prices for basic commodities such as tortillas and milk.

As of Jan. 1, 1999, the government eliminated all subsidies and price controls on tortillas, raising retail prices in some areas to between 3.50 pesos (US\$0.33) and 5.50 pesos (US\$0.52) per kg (see SourceMex, 01/06/99). As of Jan. 1, the government's milk-distribution agency Leche Industrializada Conasupo (LICONSA) increased the price of subsidized milk to 2.50 pesos (US\$0.24) per liter, a 25% increase. The price of fruits and vegetables, cheese, chocolates, and other foodstuffs also rose at the start of the year.

### ***Consumer index forecast at 2.5% or higher in January***

The increases in consumer goods and fuel have led some private analysts to forecast the INPC for January to reach at least 2.5%, which is one-fifth of the 12.8% annual inflation rate targeted by the government for 1999.

"The central bank's year-end inflation prediction of 12.8% is optimistic," said economist Joel Estudillo of the Centro de Analisis y Proyecciones Economicas de Mexico (CAPEM). "A figure of 17.8% would be more realistic." Pedro Venegas, another CAPEM economist, said such factors as a weak peso have contributed to high inflation. "When added to the more recent fuel and tax increases, we expect that prices will continue to spiral upward for at least the first semester of this year, if not for the whole year," Venegas said.

Analyst Fernando Losada of ING Barings in New York said the high inflation rates are counterproductive to the government's efforts to lower interest rates, which hovered above 30% for much of 1998. "If inflation is very, very high on a monthly basis, that doesn't let short-term

interest rates come down," said Losada. Still, the Banco de Mexico (central bank) is planning to take extraordinary measures to ensure that the government meets its 12.8% targeted annual inflation rate. Speaking at a conference in Hong Kong, the central bank's chief governor, Guillermo Ortiz Martinez, said he would soon announce a program to keep inflation in check during the year.

But columnist Jose de Jesus Garcia of the daily newspaper Excelsior pointed out that the Zedillo administration has failed to meet its inflation targets during four of its five years in office. The one year when inflation was close to target was in 1997, when the rate of 15.7% was less than one percentage point above the government's target of 15%. According to Garcia, the administration had targeted annual inflation at 4% in 1995, but the devaluation of the peso and the ensuing economic crisis drove the rate to almost 52%. In 1996, annual inflation reached 27.7%, compared with the government's target of 20.5%.

A similar trend occurred in 1998, when inflation reached 18.6% compared to the government's target of 12%. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 13, reported at 10.54 pesos per US\$1.00] (Sources: El Economista, 12/10/98, 01/07/99; El Universal, 01/06/99, 01/08/99; The News, 01/08/99; Novedades, 12/10/98, 01/05/99, 01/07/99, 01/11/99; Excelsior, 12/10/98, 01/05-08/99, 0/11/99; Reuters, 01/07/99, 01/10/99, 01/11/99; La Jornada, 01/11/99)

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