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Private economists and business organizations are criticizing the Banco de Mexico (central bank) for placing such a strong emphasis on the fight against inflation and ignoring other tools to boost the economy. In a press conference in late January, the bank reiterated its intention to maintain tight control over monetary policy to keep inflation in check during 1999. Guillermo Ortiz Martinez, the Banco de Mexico's chief governor, said the bank intends to intervene in the currency markets as many times as necessary to control the money supply and lower inflation.

The bank intervened in the foreign-exchange market on six occasions last year, but was unable to keep annual inflation from reaching 18.6%, almost seven percentage points higher than the government's target of 12%. "The Banco de Mexico's governing board considers the increase in inflation during 1998 very troublesome and risky," Ortiz told reporters. "As a result, the bank reiterates its intent to achieve, as quickly as possible, a reversal in the recent trend in price increases."

In mid-February, the Banco de Mexico implemented another measure to control inflation by requiring Mexico's commercial banks to deposit 25 billion pesos (US$2.53 billion) in the central bank. The amount each bank must keep on deposit will be determined according to its total debt at the end of 1998. The new policy is intended to restrict liquidity in the money market, the Banco de Mexico said.

Central bank urged to consider other economic tools

But some economists and business leaders have expressed strong concerns that the central bank is placing too much emphasis on inflation at the expense of other economic indicators. Juan Arroyo, president of the Colegio de Economistas, said the Banco de Mexico's policy of containing inflation by tightening money supply reduces much-needed credit for businesses and favors speculative investment in the money market. "This generates a dangerous situation of entropy, where the economy cannot run under its own steam and generate growth in employment and production," Arroyo told Reuters.

Arroyo said anti-inflation policies followed by the Banco de Mexico and other central banks in emerging economies are based on guidelines dictated by multilateral institutions like the World Bank and the International Monetary Fund (IMF). "Inflation has become an obsession among central banks," said Arroyo, former director of the economics faculty at the Universidad Nacional Autonoma de Mexico (UNAM). Some business organizations have expressed similar concerns. In a press conference in late January, representatives of two of Mexico's largest business organizations the Consejo Coordinador Empresarial (CCE) and the Confederacion Patronal de la Republica Mexicana (COPARMEX) urged the central bank and President Ernesto Zedillo's administration to diversify their economic goals and not concentrate so much on controlling inflation. "You have to

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boost purchasing power, increase wealth, and distribute the wealth more equitably," CCE leader Eduardo Bours and COPARMEX director Gerardo Aranda told reporters.

Government may not reach target of 13% annual inflation

The Zedillo administration has targeted annual inflation at about 13% this year, but a sharp increase in consumer prices during January has jeopardized this goal. In early February, the central bank reported the consumer price index (Indice Nacional de Precios al Consumidor, INPC) for January at 2.53%. The increase was attributed in part to the elimination of price controls on tortillas and increases in the costs of government services as a result of budget reductions planned for 1999 (see SourceMex, 01/06/99). In an interview with reporters in mid-February, Ortiz said his unofficial projection is for the INPC to drop to about 1.5% in February, which is slightly lower than some private estimates of 1.8%.

Ortiz's statements raised some hope among investors that the annual inflation rate will only increase slightly from the government's 13% target. Despite Ortiz's optimism, many economists believe that the government's projected rate of 13% is incompatible with its targeted GDP growth of 4.5%. "If the goal is to reduce inflation, then the government's target of 4.5% economic growth is inconsistent," said Carlos Semano, director of economic analysis for Casa de Bolsa Bancomer.

Twelve prominent business forecasters, responding to a survey conducted by the Reuters news agency in late January, projected annual inflation for this year at 14% to 18.32%. Except for the 14% forecast by J.P. Morgan, all projections were at 16% or higher. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb. 17, reported at 9.88 pesos per US$1.00] (Sources: Notimex, 01/19/99; Proceso, 01/31/99; The New York Times, La Jornada, El Universal, 01/27/99; The Journal of Commerce, 01/28/99; El Financiero International, 02/01/99; Reuters, 01/19/99, 01/26/99, 02/02/99, 02/11/99; El Economista, 01/27/99, 01/28/99, 02/01/99, 02/02/99, 02/12/99; Excelsior, 01/27/99, 01/28/99, 02/11/99; Novedades, 01/26/99, 01/27/99, 01/28/99, 02/12/99, 02/17/99; The News, 02/11/99, 02/17/99)

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