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LADB Staff

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Mexico Attains GDP Growth of 4.8 Percent in 1998

by LADB Staff

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The Secretaria de Hacienda y Credito Publico (SHCP) reported Mexico's GDP at 4.8% during 1998, just slightly below the government's target of 5%. Economists said the sluggish economic performance during the fourth quarter of 1998 prevented the government from meeting its target. GDP growth was reported at only 2.6% in October-December, almost one percentage point below many private estimates.

In separate surveys conducted by Bloomberg news service and Reuters, private economists in Mexico had projected on average a GDP growth rate of 3.5% for the October-December quarter last year. The SHCP said the decline was a symptom of a general slowdown in the world economy. The SHCP said GDP growth at the global level was only 1.9% in 1998, a sharp decline from the 3.6% growth reported in 1997.

The limited growth in the fourth quarter was also attributed to the tight monetary policies adopted by the Banco de Mexico (central bank). The policies succeeded in limiting annual inflation at the expense of lower growth, private economists said. Mexico's economic growth during 1998 was led by the industrial sector, which expanded by 6.6% relative to 1997.

In turn, the strong industrial-sector performance was led by manufacturing, which grew by 7.4%, in part because of strong exports from the maquiladora sector. Growth was more modest in mining, construction, and public utilities, sectors hit hard by the government's three reductions in the 1998 budget brought on by a sharp decline in oil prices (see SourceMex, 1998-07-15).

The primary-industries sector, which includes agriculture, fisheries, and forestry, grew by only 0.5% in 1998. The SHCP said a modest recovery in this sector in the second half of the year was insufficient to compensate for the sharp decline of 1.6% in the first half of 1998. President Ernesto Zedillo's administration has targeted a GDP increase of 3% for 1999, but economists are predicting a much lower growth rate. For example, the Centro de Analisis y Proyecciones Economicas para Mexico (CAPEM) has projected growth at 2.5% for the year, while the Consejo Coordinador Empresarial (CCE) has projected an increase in GDP of between 2.6% and 3%. "This growth rate will be insufficient to create the jobs that Mexico needs," said CCE president Eduardo Bours Castelo.

The growth rate of less than 3% will only generate about 1.2 million jobs this year, which will not provide the country's demand for 1.5 million positions in 1999. Weak banking sector to slow economy in 1999 Some economists said growth this year will be hampered by a weak banking system that will be unable to provide the financing needed for businesses to expand. Statistics released by the Asociacion de Banqueros de Mexico (ABM) show Mexico's commercial banks require another US\$5 billion to become fully capitalized.

The undercapitalized banking system reduced its lending rate by about 4.8% in 1998 and by 6% in January 1999. "For 1999 we expect weak consumption in the first half, and relatively weak investment because credit activity will be very restricted," said economist Alfredo Thorne of J.P. Morgan in Mexico City. The tenuous position of Mexico's commercial banking system has begun to affect even the large commercial banks. In mid-February, the New York Stock Exchange asked the Securities and Exchange Commission to remove listings for Grupo Serfin at the exchange because the bank had failed to meet minimum asset and income requirements. (Sources: Notimex, 02/09/99; La Jornada, 02/12/99; Associated Press, 02/15/99; Bloomberg news service, 02/18/99; El Economista, 02/10/99, 02/12/99, 02/19/99; Excelsior, 02/10/99, 02/19/99; The News, 02/16/99, 02/19/99; Reuters, 02/18/99, 02/23/99; El Universal, Novedades, 02/19/99, 02/24/99)

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