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The slump in global oil prices has raised some concerns that President Ernesto Zedillo's administration will have to reduce public spending this year. Last year, the administration made three reductions in the 1998 budget because of very low oil-export revenues (see SourceMex, 1998-01-21, 1998-03-25, 1998-07-15). The administration drafted its 1999 budget based on an average export price of US$9.25 per barrel for Mexican crude oil during 1999. However, the average price for Mexican crude in January was only US$8.61 per barrel.

The daily newspaper El Universal reported that the Secretaria de Energia (SE) and the state-run oil company PEMEX had urged the Secretaria de Hacienda y Credito Publico (SHCP) to base the 1999 budget on an average oil price of US$8.50 per barrel. But Finance Secretary Gurria ignored those proposals, choosing instead to use the projection of US$9.25 per barrel. In an interview in late February, Gurria said he expected oil prices to recover later in the year. But PEMEX director Adrian Lajous was less optimistic. "We are halfway through the first quarter of the year, and global oil prices continue very, very low," Lajous told the Associated Press-Dow Jones news service at an oil-industry conference in Houston in mid- February.

Government plans to cut 14,000 federal jobs

While no formal budget adjustment appears imminent, concerns about a possible cut later in the year became evident when the SHCP and the Secretaria de la Contraloria y Desarrollo Administrativo (SECODAM) instructed federal agencies in late February to eliminate about 14,000 positions nationwide.

SHCP spokesman Marco Provencio said many positions would be eliminated through attrition rather than layoffs, although agencies would be asked to find volunteers for early retirement. "The objective is to generate in the year savings equal to about 14,000 jobs, but it will not involve massive layoffs," Provencio said in an interview with Radio Red.

The SHCP and SECODAM also instructed all federal agencies to draft a list of other administrative reductions by the end of May. "The reductions could include lower expenditures for vehicles, cellular telephones, gasoline, and other items," said the SHCP directive. The personnel and administrative reductions are expected to save the government about 1.926 billion pesos (US$196.9 million) in 1999, according to an estimate published by the daily newspaper Reforma.

Economist Eligio San Juan of the BBV-Probursa office in Mexico City said the austerity measures announced by the SHCP and SECODAM could buy some time for the government, avoiding any announcements on full-fledged budget reductions similar to those enacted in 1998. "The government can hold out a little longer, since it's still early in the year," said San Juan. "However,

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the low oil prices should be a warning sign." San Juan said the administration will be forced to reduce the budget if oil prices drop below US$8 per barrel by early April.

Export prices for Mexican oil did recover in the first week of March, reaching US$9.81 per barrel. However, government and industry experts said they doubted prices could be sustained at that level, since the increase was the result of market speculation, reports of reduced inventories in the US, and news of a meeting of Saudi Arabian and Iranian oil ministers. "Oil-industry analysts believe the recent price increases do not accurately reflect the true state of the market," the SE said in its Mercado Petrolero Internacional bulletin. "We do not expect prices to remain at current levels unless another reduction in global supplies occurs."

Mexico may support another global oil-production cut Energy Secretary Luis Tellez said the Zedillo administration is willing to cooperate in further reducing oil supplies this year as long as other countries comply with the existing agreements to limit production and exports. Last year, Mexico, Saudi Arabia, and Venezuela led two efforts to convince oil producers both within and outside the Organization of Petroleum Exporting Countries (OPEC) to help bring down global supplies of oil by about 3.1 million barrels per day (see SourceMex, 1998-03-25, 1998-06-10).

But many oil producers failed to comply fully with the agreements. "It doesn't make any sense to seek another production adjustment while the original targets have not been met," said Tellez. Some PEMEX officials are concerned that oil prices will not recover significantly even if all producers comply with the proposed cutbacks. "Demand has been so weak that last year's reductions have not had the desired effect," said PEMEX director Lajous. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on March 10, reported at 9.78 pesos per US$1.00] (Sources: Associated Press-Dow Jones news service, 02/10/99; El Universal, 02/15/99; Reuters, 02/23/99, 02/24/99; Excelsior, 02/11/99, 02/24/99, 02/25/99, 02/26/99; El Economista, 02/10/99, 02/11/99, 02/24/99, 03/10/99)

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