10-13-1999

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LADB Article Id: 54125
ISSN: 1054-8890

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by LADB Staff
Category/Department: Mexico
Published: 1999-10-13

President Ernesto Zedillo, anticipating the continuing improvement of macroeconomic statistics next year, plans to request a moderate increase in the federal budget for 2000. Finance Secretary Jose Angel Gurria Trevino told participants at a meeting of the International Monetary Fund (IMF) in Washington that the president's preliminary budget proposal for next year would boost federal expenditures to 1.185 trillion pesos (US$124 billion).

Zedillo is required by law to present the final version of his budget proposal to the Mexican Congress by Nov. 13. Request assumes 5% GDP growth, strong oil prices next year The preliminary budget is 15% higher in nominal terms and 5% higher in real terms than the budget approved for 1999.

Gurria said the preliminary numbers are based on the administration's projections for a 5% GDP growth next year. "The budget will increase in real terms by the same proportion as the expected GDP growth," Gurria told the IMF general assembly in late September.

The projected increase in GDP growth in 2000 is almost two percentage points higher than the 3.2% to 3.3% GDP growth forecast for 1999. The government is also anticipating annual inflation to decline to about 10% in 2000 from the projected rate of just below 13% in 1999. The Banco de Mexico (central bank) reported accumulated inflation at 9.53% for January- September, making the 1999 target within reach.

The Zedillo administration's optimistic stance regarding the 2000 budget is also based on the strong recovery in global oil prices, which has increased Mexico's oil-export revenues. This is a sharp contrast to budget plans submitted for 1998 and 1999, when the sharp decline in oil prices forced the administration to restrict its spending proposals (see SourceMex, 1997-11-05, 1998-11-11).

The administration's 1998 budget proposal assumed an average oil-export price of US$15.50 per barrel. In reality, the average price for the year was US$10.20 per barrel, causing the government to scale back spending on three different occasions that year (see SourceMex, 1998-01-21, 1998-03-25, 1998-07-15).

In formulating the 1999 budget, the administration had forecast Mexico's oil-export price at an average of US$11.50 for the year. But the average price for Mexican crude-oil exports was US$12.96 in January-August, thanks in large measure to the price recovery that began in March. Prices have been particularly strong in August and September.

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The state-run oil company PEMEX says Mexican crude-oil exports sold at an average of US$18.96 per barrel during August. The price recovery is expected to boost Mexico's oil- export revenues by US$2 billion above original projections. The improved revenues, along with increased tax collections, should allow the administration to easily meet its target of a budget deficit of 1.5% of GDP. In his address to the IMF, Gurria said the administration would like to reduce the budget deficit to 1% of GDP in 2000. The finance secretary did not mention a projected average oil-export price when presenting Zedillo's preliminary budget.

Some analysts are advising the administration to be conservative when forecasting prices for next year because of the volatile history of the global oil markets. "We need to learn from the experience of 1998," said Adolfo Albo, director of economic and market studies at Banco Bilbao Vizcaya (BBV). Albo suggested that the Secretaria de Hacienda y Credito Publico (SHCP) would be safe basing its budget on an estimate of US$15 per barrel, rather than on the recent price of close to US$19 per barrel.

Mexican economic performance mixed

In his address to the IMF, Gurria promised that the administration would remain vigilant to ensure that Mexico did not repeat some of the economic mistakes made in the recent past. He pledged that Mexico would continue to exercise fiscal discipline, diversify exports, boost savings, allow a flexible exchange rate, adequately manage the foreign debt, and consolidate the banking sector. But Mexico's economic performance this year has received mixed reviews.

In late August, two of Mexico's major business organizations, the Confederacion Nacional de Camaras Industriales (CONCAMIN) and the Camara Nacional de la Industria de Transformacion (CANACINTRA), criticized the SHCP for being overly optimistic when reporting a 3.2% growth in Mexico's GDP during the second quarter. "Although the economy is showing signs of recovery, we don't see an improvement in the productive sector of the economy," the two chambers said in a joint statement. "At least 90% of the industry, especially the small and medium-sized companies, is still suffering from a depressed internal market, a lack of credit, and a heavy fiscal burden."

Some economists also worry the low inflation rate so far this year is a sign of an overvalued peso, which has increased in value by more than 14.3% since the height of Brazil's currency crisis in January. The Mexican currency had sunk to a low of 10.65 pesos per US$1.00 at the beginning of the year, but recovered to about 9.50 per US$1.00 by mid-October. The strong peso, they said, could encourage a surge in imports, leading to balance of payments problems that helped trigger the disastrous peso devaluation in December 1994.

But other economists said they expect the Mexican currency to weaken to about 10 pesos per US $1.00 by the end of the year, as uncertainty surrounding the selection of the presidential candidate for the governing Partido Revolucionario Institucional (PRI) and the 2000 budget process force investors to sell their pesos and seek safety in the US dollar. "Political risks are going to generate some nervousness starting in October and are going to gain momentum in November with the presentation of the budget," economist Jorge Suarez of Interacciones brokerage told Reuters news service.

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The administration's success in meeting macroeconomic goals is also overshadowed by its inability to bring down interest rates sufficiently. The Banco de Mexico has employed a restrictive monetary policy, which has kept short-term interest rates at 20%. A central bank officer said the uncertainty preceding the 2000 presidential elections will force the Banco de Mexico to maintain its restrictive policy. "Given the uncertain panorama, I don't foresee a drastic reduction in real rates in the coming months, even as inflation comes down," the bank officer told Reuters.

Legislators have also criticized the Zedillo administration for placing so much emphasis on macroeconomic statistics, which tend to mask the growing poverty rate in Mexico. At a hearing before the Senate in late September, legislators scolded Gurria for presenting a "happy picture" of the Mexican economy, while failing to accept responsibility for the continuing high levels of poverty. PRI Sen. Alberto Santos de Hoyos asked the administration to consider the macroeconomic statistics in the context of the "real world," where the Mexican people and Mexican businesses continue to suffer.

The private sector and multilateral institutions have also criticized the administration for placing too little emphasis on the country's growing poverty. Jorge Marin Santillan, president of the Consejo Coordinador Empresarial (CCE), said Mexican businesses were not only concerned about the growing rate of poverty but also about its social and political implications. Speaking at the annual CONCAMIN meeting in Mexico City in early October, Marin said poverty is an obstacle to development in the short term and risks social unrest in the long term.

Meanwhile, the World Bank's assessment was also mixed regarding Mexico's economic growth. In a report published in mid-September, the bank said Mexico's growth is offset by the inequitable distribution of wealth. The report said Mexico's recent growth rate has been among the highest in the world despite the comparatively small size of its economy. However, it said this ranking is misleading, since the growth has failed to benefit a large segment of the population. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 13, reported at 9.50 pesos per US$1.00] (Sources: Reuters, 09/09/99, 09/13/99, 09/20/99, 09/30/99, 10/07/99; The News, 08/25/99, 10/01/99, 10/07/99; La Jornada, 09/27/99, 09/28/99, 10/07/99; El Economista, 08/20/99, 09/10/99, 09/15/99, 09/17/99, 09/27/99, 09/28/99, 09/30/99, 10/01/99, 10/08/99; Excelsior, 09/27/99, 10/01/99, 10/08/99; Novedades, 09/20/99, 09/24/99, 09/27/99, 09/28/99, 09/30/99, 10/08/99, 10/12/99; El Universal, 09/24/99, 10/08/99, 10/12/99)

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