11-17-1999

President Ernesto Zedillo Sends 2000 Budget Proposal to Congress

LADB Staff

LADB Latin America Data Base
News & Educational Services
SourceMex
LADB Article Id: 54080
ISSN: 1054-8890

President Ernesto Zedillo Sends 2000 Budget Proposal to Congress

by LADB Staff
Category/Department: Mexico
Published: 1999-11-17

On Nov. 11, President Ernesto Zedillo sent Congress a budget proposal for 2000 that is fairly austere for an election year. In real terms, the budget of 1.169 trillion pesos (US$125.2 billion) is only 4.5% higher than the budget proposed for 1999. "During the past 30 years, government spending has usually increased during an election year," economic analyst Juan Carlos Leal of TV Azteca told The Dallas Morning News. "But that does not seem to be the case in 2000."

As part of the administration's pledge to avoid influencing the elections, the Secretaria de Hacienda y Credito Publico (SHCP) said enrollment in government- assistance programs such as Progresa will be closed a few months before the July 2, 2000, election. The administration's budget does propose an overall 6% increase in social programs. The increased expenditures will be offset by a reduction in government spending on infrastructure projects, tighter tax enforcement, and other measures, the SHCP said.

Finance Secretary Jose Angel Gurria Trevino, who presented the budget to Congress, said the proposal is based on strong macroecomonic forecasts for 2000, including GDP growth of 4.5%, annual inflation of 10%, and a fiscal deficit of only 1% of GDP. Gurria said the optimistic macroeconomic forecasts for next year follow the rosy projections for 1999.

This year, Mexico is expected to meet or surpass its goals of 3.4% GDP growth, 13% annual inflation, and a public debt of 1.25% of GDP. Earlier this month, the Banco de Mexico (central bank) reported accumulated inflation for January-October at 10.2%, which means the target of 13% for the year is very attainable.

The SHCP, meanwhile, reported GDP growth for January-September at 3.2%, thanks to vigorous economic activity during the third quarter of the year. GDP growth in July-September was reported at 4.6%. "Maintaining healthy public finances will not only allow us to achieve positive results in growth, employment, inflation, and the current account," Gurria said in a brief speech to Congress, "it will also place us in a solid position to avoid the recurrence of the six-year crises that have characterized the country for the last 25 years."

Budget continues to rely heavily on oil-export revenues

The 2000 budget also assumes an average price of US$15.50 per barrel for Mexico's crude-oil exports. In contrast, the 1999 budget projections were based on average crude-oil prices of US$11.00 to US$11.50 per barrel (see SourceMex, 1999-12- 09). But some observers raised concerns about the administration's continued reliance on the global oil market as a measuring stick for the budget. "Oil will account for about 32% of the total budget, which proves that the economy is still far too dependent on volatile revenues," said Roberto Mena, a financial columnist for the Mexico City daily newspaper The News.

LADB Article Id: 54080
ISSN: 1054-8890

Mena said Zedillo's budget also relies excessively on one-time income from government sell-offs of the Camino Real hotel chain and the airline holding company Cintra. "If any of the divestitures fails to materialize at the optimistic levels being budgeted, it will further throw the budget balance out of whack," said Mena.

Budget proposes 35 billion pesos for bank-rescue fund

The Congress has already objected to several elements of the proposal. The major source of disagreement is the allocation of 35 billion pesos (US$3.75 billion) for the Instituto de Proteccion al Ahorro Bancario, IPAB) to cover the continuing costs of rescuing the Mexican banking sector. This year, the IPAB spent billions of pesos to rescue financially troubled Banca Serfin and Bancrecer (see SourceMex, 1999-06- 30, 1999-10-20).

Leaders of the center-left Partido de la Revolucion Democratica (PRD), the conservative Partido Accion Nacional (PAN), and an independent faction of the governing Partido Revolucionario Institucional (PRI) have already said they will reject the allocation of such a large sum for the IPAB.

PRD legislators have suggested that funds allocated for bank-rescue operations could instead be devoted to recovery operations in states that were devastated by a series of storms in October (see SourceMex, 1999-10-20). "Our position has always been that the budget should not be compromised by the president's pledge to assist the large financial groups," said PRD Deputy Carlos Heredia. The disagreement on the funding for bank-rescue operations could create a similar situation as last year, when Congress and the executive branch locked horns over funding the Fondo Bancario de Proteccion al Ahorro (FOBAPROA), the IPAB's predecessor (see SourceMex, 1998-12-06)

The two branches of government avoided a legal crisis through a compromise on FOBAPROA and eventually approved the budget by Dec. 31, which is within the two-week extension period allowed by the Constitution (SourceMex, 1999-01-06). Some analysts argue that the disagreements on funding to rescue the banking sector are not as major this year as they were in late 1998. "The IPAB will be the most controversial component, but it pales in comparison with the difficulties they found in 1998 with FOBAPROA," said Gray Newman of the Merrill Lynch brokerage firm in New York City.

Anticipating resistance on the IPAB funding, the administration offered legislators a compromise to partially offset the increased bank-rescue expenditures. The compromise offers to limit Mexico's debt ceiling at US$3.5 billion next year, about US$1.5 billion below the level approved for 1999.

Some analysts expect the opposition-led Congress to reject this offer as an insufficient trade-off for the high level of IPAB funding. If this is the case, the analysts said, the Zedillo administration could resort to tactics employed last year, when it offered other compromises to PAN legislators to support the FOBAPROA funding.

Controversy also surrounds plan to allow local taxes

But Zedillo may not find the PAN as willing to compromise with the administration this year because of another controversial proposal in the budget. The proposal, which is said to target

LADB Article Id: 54080
ISSN: 1054-8890

PAN governors in northern states, would allow state and municipal governments to impose a local consumption tax of 2%. "A lot of demands are coming from governors that the federal government give out more resources," Gurria told the Televisa network. "But at this point, there's tremendous pressure on the federal government's finances and those resources are just not available."

But the consumption-tax scheme would not be accompanied by any reductions in the 15% federal value-added tax (impuesto al valor agregado, IVA). Therefore, the proposal is an "illegal and underhanded" attempt by the administration to disguise an increase in the IVA, said Sens. Jorge Calderon of the PRD and Arturo Nava Bolanos of the PAN. The opposition legislators also accuse the executive of attempting to pass on the unpopular task of increasing taxes during the election year to state and municipal governments.

Zedillo's budget does not offer any major increases in federal income or consumption taxes, although the administration has proposed a number of measures to close loopholes to enforce tax collection. Instead, the administration continues to seek a boost in tax revenues through other means, such as the recently announced plans to increase taxes for maquiladora plants and to implement a taxation system for street vendors (see SourceMex, 1999-11- 03).

Significantly, the administration has proposed an increase of 6.9% in the budget for the Universidad Nacional Autonoma de Mexico (UNAM). Citing a tight budget, UNAM chancellor Francisco Barnes de Castro last year introduced a controversial proposal to begin charging tuition at the UNAM. The proposal led to a massive student strike in April (see SourceMex, 1999-06-02, 1999-08-25). The strike remained unresolved as of mid-November (see SourceMex, Nov. 17, 1999).

However, Barnes resigned on Nov. 12, which striking students said was a necessary step to begin dialogue on ending the strike. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Nov. 17, reported at 9.33 pesos per US$1.00] (Sources: The Dallas Morning News, 11/12/99; Reuters, 11/09/99, 11/11/99, 11/12/99, 11/16/99; El Economista, 11/03/99, 11/10/99-12, 11/17/99; La Jornada, 11/10/99, 11/17/99; Excelsior, 11/10/99, 11/11/99, 11/17/99; El Universal, 11/10-12/99, 11/17/99; Reforma, 11/10-13/99, 11/17/99; Novedades, 11/10/99, 11/11/99, 11/13/99, 11/17/99; The News, 11/11/99, 11/17/99)

-- End --