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Finance Secretariat Reports Higher than expected G.D.P. Growth In 1999

by LADB Staff
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The Mexican economy expanded at a better-than-expected rate during 1999 and early 2000, but the growth continues to be hampered by a weak banking sector and the government's inability to reduce the high rate of poverty. In its annual economic report in mid-February, the Secretaria de Hacienda y Credito Publico (SHCP) reported Mexico's GDP growth at 3.7% in 1999, well above the government's target of 3%. The economy performed particularly well in the fourth quarter of the year, when GDP growth reached an unexpectedly high rate of 5.2%, the SHCP said. Analysts said growth was evident in all sectors of the economy throughout the year but especially in the fourth quarter. In October-December of last year, the services sector recorded GDP growth of 5.7%, followed by industry with 4.9%, and agriculture with 3.9%. Fourth-quarter growth "was more diversified with a more important contribution from the services sector, which shows a recovery in domestic demand," said Javier Murcio, Latin America economist at Credit Suisse First Boston. "Most of the growth in the year had been in industrial production geared toward exports." An important effect of the strong growth was the economy's ability to create more than 700,000 jobs in the formal economy, said deputy finance secretary Carlos Noriega Curtis. "This does not mean that our problem is solved," Noriega told the official news agency Notimex. "This only means that a dynamic economy prevented our unemployment situation from worsening." The higher GDP growth comes on the heels of a lower-than-expected annual inflation rate of 12.3% in 1999 (see SourceMex, 2000-01-12). In addition, the SHCP also reported Mexico's fiscal deficit during 1999 at only 52.51 billion pesos (US$5.58 billion), equivalent to 1.15% of GDP. The administration had targeted a fiscal deficit of 1.25%. For 2000, Mexico expects to reduce annual inflation to 10% and lower the fiscal deficit to 1% of GDP.

Mexico seeking Moody's "investment grade"

President Ernesto Zedillo's administration is hoping the country's strong economic performance and ability to limit its fiscal deficit will be deciding factors for Mexico to attain an "investment grade" from the New York-based Moody's Investor Services. In early February, Moody's revised its outlook for the Mexican economy from "stable" to "positive," leading to speculation that the country's rating would be upgraded this year. "The investment rating will help lower financing costs and give us greater access to credit," Finance Secretary Jose Angel Gurria Trevino told reporters. Several prominent brokerage companies said they expect Mexico to receive the favorable rating sometime this year, although there is some debate on whether this will happen before the July 2 presidential election. "It is too risky for Moody's to change its rating for Mexico until the new government is in place and before the next officials and ministers are announced," said analyst Carlos Fritsch of Casa de Bolsa Interacciones. The new president is scheduled to take office in December, which means that an announcement of a new rating could be delayed until the end of the year or even the beginning of 2001. Mauro Leos, sovereign-debt analyst at Moody's, said the service could well decide to change its Mexico rating before the election, especially given the incident-free primary held by the governing Partido Revolucionario Institucional (PRI) in November. That
primary was won by former interior secretary Francisco Labastida (see SourceMex, 1999-11-10). "The big question...is to what extent we think conditions could drastically change after the election, in a negative sense," Leos said in an interview with Reuters news service. But Gurria Trevino said the government will not press Moody's to make a hasty decision. "Maybe they should wait for the elections," he said. "That is for them to decide we are not pushing." Gurria said Mexico has taken all the steps necessary to prevent the crises that have occurred with the changes in administration following the past several elections. The latest crisis occurred in 1995 shortly after Zedillo took office. At that time, the government was forced to devalue the peso and seek emergency loans from multilateral institutions to discourage the flight of foreign capital (see SourceMex, 1995-01-11). "We will not have a crisis in this change of administration," Gurria told reporters. He said the Zedillo administration's optimism is based on the steps the government has taken to reduce exposure for the Mexican economy, including reducing the total foreign public debt to seven months' worth of exports from the previous 16 months' worth, and lowering the current-account deficit to 2.8% of GDP from a previous 7%. In addition, Mexico received US$16.9 billion in credits from multilateral institutions and the US and Canadian governments last year to protect the economy against financial turmoil related to the elections (see SourceMex, 1999-06-30).

Growth hampered by growing poverty & weak banking sector

But analysts said other structural problems could create difficulties for the Mexican economy, such as a still weak banking sector and the country's growing poverty rate. By some estimates presented at a poverty forum in Mexico City in mid-January, 72% of the Mexican population is considered poor. "The government has to address the structural causes of poverty, such as unemployment, the loss of purchasing power, and a regressive distribution of income," said Juan Pablo Arroyo, president of Colegio de Economistas. "This requires developing new and better proposals and acknowledging that the measures taken thus far have been insufficient." Researcher Julio Boltvinik said the neoliberal policies followed by Zedillo and former presidents Miguel de la Madrid and Carlos Salinas de Gortari have allowed a few individuals to get rich while increasing poverty among the masses. He said Mexico succeeded in bringing down the rate of poverty from 75% in 1960 to 48% in 1981, but the trend reversed during the 1980s and continued upward into the 1990s. Boltvinik said the current economic model places a high priority on controlling inflation, a major factor in attracting foreign investment. "Our system is set up for the foreign investor, not to foster an equitable distribution of income," said Boltvinik. The government's macroeconomic statistics also continue to be blemished by a weak banking sector. Since 1994, the amount of financing provided by commercial banks to Mexican businesses has fallen by about 71%, said Jose Luis Flores, director of the government lender Banco Nacional de Obras y Servicios Publicos (BANOBRAS). In a report published in early February, the Banco de Mexico (central bank) indicated that commercial banks provided less than one-fourth of all financing extended to private enterprises during the last quarter of 1999. The quarterly report said only about 38% of the companies that responded to a Banco de Mexico survey said they have relatively easy access to bank credit. The other 62% said their loan applications were rejected or they decided not to seek loans at a bank because of the high interest rates charged by the banks. A follow-up survey by the central bank showed the situation had not improved at the beginning of this year. The amount of credit extended by Mexico's private commercial banks during January was down about 15% from the same month the previous year. This followed the trend in December, when loans from commercial banks to the private sector were down 13.9% from a year ago. As an alternative to banks, many companies have been obtaining loans
from suppliers, parent companies, foreign banks, or the government's development banks, said
the central bank in its quarterly survey. While banks remained selective on their loans, their profits
continued to grow. The daily newspaper Reforma reported that the net profits of Mexico's nine
major banks surpassed 15.9 billion pesos (US$1.69 billion) in 1999, an increase of almost 74% from
the previous year. In the fourth quarter of last year, Mexico's two largest banks, Grupo Financiero
Banamex-Accival (Banacci) and Grupo Financiero Bancomer, reported earnings that surpassed
expectations. In addition to the diminished role of banks as lenders, the sector as a whole has
proven to be a drain on government coffers. The government has spent more than US$100 billion
to rescue the banking sector from collapse after the 1994-1995 peso devaluation. The 2000 budget
includes 34.6 billion pesos (US$3.68 billion) for the bank-rescue agency (Instituto de Proteccion al
Ahorro Bancario, IPAB), which has already injected funds to rescue Banca Serfin and is expected
to devote money to help shore up Bancrecer, Banca Promex and Banco del Atlantico. [Note: Peso-
dollar conversions in this article are based on the Interbank rate in effect on Feb 23, reported at
9.40 pesos per US$1.00] (Sources: The News, 02/16/00; Reforma, 02/08/00, 02/16/00, 02/17/00; The
Dallas Morning News, 02/17/00; La Jornada, 11/23/99, 01/27/00, 02/14/00, 02/16/00, 02/21/00; Notimex,
02/10/00, 02/14-17/00, 02/21/00; Novedades, 02/15-18/00, 02/21/00; Reuters, 01/08/00, 01/21/00,
01/28/00, 02/09/00, 02/14/00, 02/16/00, 02/17/00, 02/21/00, 02/22/00; Excelsior, 02/10/00, 02/11/00,
02/17/00, 02/18/00, 02/21/00, 02/22/00; El Universal, 02/09/00, 02/16-18/00, 02/21-23/00; El Economista,
02/10/00, 02/11/00, 02/15-18/00, 02/21-23/00, El Financiero, 02/16-18/00, 02/22/00, 02/23/00)

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