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Opposition Parties Dispute Cuts Proposed In Zedillo Administration's Amended Budget For 2000

by LADB Staff

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President Ernesto Zedillo's administration and leaders of opposition parties in the Chamber of Deputies have become embroiled in a new dispute over the 2000 budget, which was approved at the end of 1999. The dispute arose over amendments to the budget presented by the administration in early March. Those amendments eliminate more than 7.62 billion pesos (US$823 million) in public-works projects for the state-run oil company PEMEX, the Secretaria de Comunicaciones y Transportes (SCT), the Secretaria de Educacion Publica (SEP), the Secretaria de Salud, and several other government entities.

Public-works reductions would offset increased social spending

The document sent by the Secretaria de Hacienda y Credito Publico (SHCP) said the reductions are intended to compensate for increases in funding for housing, education, and other social programs approved by the lower house. The SHCP said the government will save about 3 billion pesos (US$324 million) by postponing construction and expansion projects for PEMEX and the SCT. Infrastructure projects were also postponed for most other government ministries, including the SEP, the Secretaria de Reforma Agraria (SRA), the Secretaria de Defensa Nacional (SEDENA), and the Secretaria de Turismo (SECTUR). The administration insists the reductions in public spending are intended to ensure that public expenditures remain at the targeted 1% of GDP. "We've got to keep public finances in line to hold inflation and interest rates down and avoid running up more debt than the Congress itself approved," said Finance Secretary Jose Angel Gurria Trevino. The budget Zedillo originally submitted to Congress in November 1999 provided for expenditures totaling 1.169 trillion pesos (US$126 billion). But the Chamber of Deputies, led by the center-left Partido de la Revolucion Democratica (PRD) and the conservative Partido Accion Nacional (PAN), increased the 2000 budget to 1.2 trillion pesos (US$129 billion) to compensate for increased social spending (see SourceMex, January 12, 2000). The opposition parties had justified the higher budget by pointing to a projected increase in oil-export revenues resulting from increased international prices.

In criticizing the new cuts announced by the administration, legislative leaders Carlos Medina Plascencia of the PAN and Pablo Gomez Alvarez of the PRD noted that the budget approved by the lower house in December was based on average export prices of US$16 per barrel for Mexican crude, but prices had risen dramatically in recent weeks. As of March 7, the average export price of Mexican crude oil stood at US$29 per barrel. The legislative leaders said Mexico's oil-export revenues as of February were running about 10 billion pesos (US$1.07 billion) above initial projections. Oil-export revenues were also an issue in 1998, when the administration was forced to reduce public expenditures. In that instance, oil prices were extremely low, bringing three separate cuts in federal spending (see SourceMex, January 21, 1998, March 25, 1998, July 15, 1998). The cuts at that time were based on projections for Mexico's crude-oil export price to average about US
$11.50 per barrel, compared with the initial projection of US$15.00 per barrel. But the case is much different this year, when Mexico's crude-oil export prices could easily surpass US$30 per barrel. With international oil-export prices expected to remain strong the rest of the year, PAN and PRD leaders said there was no reason for the administration to reduce expenditures, other than for political purposes. "We are not going to allow the administration to ridicule the legislative branch," said PAN leader Medina Plascencia, who said the administration violated terms of the executive-legislative agreement that led to approval of the 2000 budget.

Gomez Alvarez called the SHCP decision an "electoral ploy" designed to assign the blame for budget reductions to the opposition parties. But Zedillo disputed the assertions that the reductions were politically motivated. "In the past, the PRI was criticized for increasing expenditures in an election year," Zedillo told participants at a banking-industry convention in Acapulco in early March. "Today, when we've adopted a fiscal policy that is neutral, we are being accused of doing something wrong," Deputy Fidel Herrera Beltran, a leader of the governing Partido Revolucionario Institucional (PRI) in the Chamber of Deputies, reassured opposition leaders that the reductions were only temporary. Herrera Beltran said the federal government was planning to review its finances at the end of the first quarter of this year and was likely to restore and even increase some of the funds that were withdrawn from the public-works projects. Finance Secretary Gurria confirmed these intentions during a radio interview. "We're going to carry out an analysis to see if we have any excess [funds] so that we can replace some of those programs," Gurria told Radio Formula.

Mexico obtains coveted "investment grade"

The administration's decision to offset the increased expenditures in Congress' 2000 budget appeared to signal the international investment community that Mexico fully intended to maintain fiscal discipline this year. Zedillo reiterated this during his address at the Acapulco banking convention. The president acknowledged that Mexico surpassed its targets for GDP growth and annual inflation in 1999, but said the government would not become complacent. "We must continue to apply economic policy in a disciplined manner," said Zedillo. The president made the statement only a few days before the international rating agency Moody's Investment Services announced an increase in Mexico's credit rating to investment grade. By upgrading Mexico's investment status, the rating agency reassured potential investors that Mexico presents a very low risk of failing to pay its debts. This, in turn, is expected to allow the Mexican government and the private sector access to a wider range of financing at lower interest rates. "This investment grade means Mexico has good economic conditions in the medium and long term," an elated Gurria said in an interview with the Televisa network. "Mexico won't suffer a crisis during the change of administration." The private sector, meanwhile, was divided on the administration's decision to offset the congressional expenditures with other reductions. Some business leaders like Jorge Marin Santillan of the Consejo Coordinador Empresarial (CCE) and Pedro Strassburger of the Camara Mexicana de la Industria de Construccion (CMIC) expressed strong displeasure with Zedillo's elimination of public-works projects to meet budget goals. Marin and Strassburger said the reductions would have a severe impact on the Mexican construction industry, which would lose out on government infrastructure contracts. The two business leaders recommended that the government expedite privatization of the petrochemical and electrical sectors and other key industries to attract private capital for construction of badly needed infrastructure.
But Vicente Yanez, president of the Camara Nacional de la Industria de Transformacion (CANACINTRA), defended Zedillo's amended budget, saying the reductions would have minimal impact on the Mexican economy. "We are not talking about substantial reductions," he said. "These are only adjustments for different government entities and do not represent cuts in government revenues." Some administration officials also downplayed the impact of the cuts. Communications and Transportation Secretary Carlos Ruiz Sacristan stressed that the government still had ample funds to follow through with planned projects such as road construction. Ruiz Sacristan said the Zedillo administration will have no trouble meetings its target to construct or upgrade 6,400 km of highway during its six-year term, which ends in December. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on March 8, reported at 9.26 pesos per US$1.00] (Sources: Notimex, 03/01/00, 03/02/00; Novedades, 03/01/00, 03/03/00; La Jornada, 03/01-03/00; El Financiero, El Economista, El Universal, 03/02/00, 03/03/00; Associated Press-Dow Jones news service, 03/07/00; Reuters, 03/01-03/00, 03/08/00; Reforma, 03/02/00, 03/03/00, 03/08/00; The New York Times, 03/08/00)