11-5-2003

Bank Offers Unemployment Insurance Policies

LADB Staff

Follow this and additional works at: https://digitalrepository.unm.edu/sourcemex

Recommended Citation
Bank Offers Unemployment Insurance Policies

by LADB Staff  
Category/Department: Mexico  
Published: 2003-11-05

In what could eventually become a model for the Mexican government, Grupo Financiero Banamex has created an unemployment-insurance policy that offers participants a source of income in case of layoff or disability. Banamex, an affiliate of US-based Citibank, expects to sell 10,000 policies during the course of the year. The Banamex plan offers workers two policies, with monthly premiums set at 60 pesos (US$5.46) or 120 pesos (US$10.90) per month, depending on the extent of coverage. In both cases, workers would receive six monthly checks while they seek new jobs. "It's six months of oxygen" for the jobless, said Pablo de la Peza, Banamex's insurance director.

The policy has limited scope, however, because only workers in the formal economy are eligible for full benefits, and self-employed workers who pay taxes can only obtain disability coverage. This means that an estimated 9.5 million Mexicans who earn a living from the informal economy do not have access to this type of insurance. Some analysts say the unemployment insurance provides an alternative to laid-off workers who otherwise might opt to enter the informal economy. "It gives workers an option," said economist Adolfo Sanchez at the Universidad Nacional Autonoma de Mexico (UNAM).

Congress, administration consider own programs
The Banamex plan has caught the attention of the Mexican Congress and President Vicente Fox's administration. Legislators from the former governing Partido Revolucionario Institucional (PRI) are proposing to include a line item in the 2004 budget to fund a new unemployment-insurance program.

The plan, which would cover 1.6 million unemployed workers, would also require changes to Articles 25 and 46 of the federal budget law (Ley de Coordinacion Fiscal). Recent statistics published by the Banco de Mexico (central bank) indicate the formal economy has lost about 500,000 jobs during the first three years of Fox's term. The main sponsor of the congressional proposal, PRI Deputy Martha Palafox Gutierrez, said the insurance is a necessary "act of justice" to help the thousands of workers who are losing their jobs. "We are aware that resources are scarce, but we also know that the executive branch has underspent its budget in recent years," said Palafox.

The Fox administration is also willing to consider creating an unemployment-insurance plan funded jointly by the government and the private sector. Labor Secretary Carlos Abascal Carranza said the administration would pursue the plan after reforms to Mexico's labor code (Ley Federal del Trabajo, LFT) were completed. The discussions on a new LFT have been stalled in Congress since 2000 because of disagreement regarding the administration's employer-friendly proposals (see SourceMex, 2003-05-07). The LFT was created in 1930 but has not been modified since 1970.

The proposals to create unemployment insurance emerged only a few weeks after the government's statistics institute (Instituto Nacional de Estadisticas, Geografia e Informatica, INEGI) reported August unemployment at its highest level in five years (see SourceMex, 2003-10-01).
Job-creation prospects poor because of sluggish economy

The employment picture was not expected to improve much during the course of this year and through 2004. Private analysts who responded to a monthly survey by Banco de Mexico (central bank) projected that only 87,000 new jobs would be created this year and another 358,000 in 2004.

Government and private economists acknowledge that job losses often cancel out job creation. "We don't expect to see a net gain in jobs this year," said Manuel Ramos Francia, director of economic research at the central bank. The poor employment prospects projected by the central bank and private analysts are closely linked to the continuation of a sluggish economy.

Private analysts who responded to the Banco de Mexico survey on average projected GDP growth in 2003 at 1.43%, a downward revision from a previous estimate of 1.6%. The respected private firm Consultores Internacionales projects GDP growth in a range of 1% to 1.4%. The Banco de Mexico has revised its forecast downward for the third time this year to project growth at only 1.5%. Its previous forecast was 2%. "Mexico's economy will grow below its potential for the third consecutive year," said Ramos Francia.

The downturn is also evident in projections published by the Secretaria de Hacienda y Credito Publico (SHCP), which anticipate GDP growth in the third quarter of the year at less than the growth in the first two quarters of the year. Analysts agree that the fortunes of the Mexican economy are closely tied to economic trends north of the border. But even the recent report that the US economy grew by 7.2% in the third quarter of 2003 did not necessarily bring welcome news for Mexico.

The SHCP noted that the US manufacturing sector contracted by 1.1% in July-September relative to a year ago, which contributed to a 4.2% decline in manufacturing activity in Mexico during the same quarter. The US economy is contributing in other unconventional ways to keeping the Mexican economy afloat, most prominent of which are the remittances sent back to the country by Mexican expatriates.

One estimate indicates remittances could reach US$14.5 billion this year (see SourceMex, 2003-10-29). Remittances are now Mexico's second-largest source of foreign exchange, surpassed only by oil exports. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Nov. 5, reported at 10.98 pesos per US$1.00] (Sources: Notimex, 10/09/03; The Herald, 10/09/03, 10/10/03; El Universal, 10/10/03; Reuters, 10/30/03; La Cronica de Hoy, El Financiero, La Jornada, 10/31/03, 11/05/03; Milenio Diario, 10/31/03, 11/05/03; El Sol de Mexico, 10/30/03, 11/03/03, 11/05/03)