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Fox Administration Reduces 2005 Growth Forecast to 3 Percent

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President Vicente Fox's administration has finally agreed to reduce its GDP forecast for 2005 to 3%, in line with other projections. In a press conference in early December, Finance Secretary Francisco Gil Diaz acknowledged that the country's economic performance has not been as strong as anticipated. "Growth has not been at the level we would have liked and has proved unsatisfactory and insufficient in meeting the requirements of job and salary growth," Gil Diaz told reporters.

The finance secretary noted, however, that, despite the disappointing GDP growth, the Mexican economy was still in an expansion mode. "We are still experiencing growth in the economy," said Gil. "Last year our growth was 4.2%; this year we will grow by 3%." As recently as early November, the administration was insisting that its target of GDP growth of 3.5% was still attainable during 2005, even though the Banco de Mexico (central bank) had reduced its projection to 2.75% (see SourceMex, 2005-11-02).

The central bank had lowered its projections, partly in response to the negative impact of Hurricanes Stan and Wilma on the Mexican economy, especially the tourism and agriculture sectors. Stan caused major damage primarily in Chiapas, Veracruz, Oaxaca, and Puebla, while Wilma brought significant devastation to the tourism industry in Quintana Roo (see SourceMex, 2005-11-02 and 2005-11-09).

Revision in line with other forecasts
The revised growth forecast is also in line with the 3% projection made by the Organization for Economic Cooperation and Development (OECD) in late November. Beginning in June 2006, the OECD will be led by Mexico's ex-finance secretary Jose Angel Gurria Trevino (see SourceMex, 2005-11-30). The American Chamber of Commerce (AMCHAM) in Mexico City projected a 3.1% growth rate for Mexico at the end of November.

Some analysts said the Fox government was aware several weeks ago that its growth targets would not be met, but decided to delay any adjustments. "[The government] was late in admitting that its growth targets would not be met," said economist Isaac Katz of the Instituto Tecnologico Autonomo de Mexico (ITAM). Katz said the government does not want to acknowledge that Mexico has an inefficient economy that continues to lose competitiveness.

Gil said Mexico's economic performance was hampered by the lack of reforms to key areas of the economy including the tax structure and the energy sector. "Things would have been better if we had been able to achieve some of the comprehensive reforms that are so necessary and important for our country," he said at the press conference. The finance secretary also pointed to one of the successes of the Fox administration, low inflation, which he said has contributed to a decline in
interest rates. The low rates have allowed the government to spend more money on capital projects, particularly in the energy sector and on social programs, he said.

Gil said the Fox government is committed to ensuring that the Mexican economy remains strong during the transition to the next administration, following presidential elections scheduled for July 2, 2006. In the past, a change of administrations has been the source of economic instability, particularly during the transition at the end of 1994. Mexico experienced a major devaluation when then President Ernesto Zedillo took the reins from predecessor Carlos Salinas de Gortari (see SourceMex, 1995-01-04).

Finance secretary predicts economic stability for 20 years

In his press conference, Gil said that economic stability would prevail not only during the rest of Fox's term in office and in the transition to a new administration at the end of the year, but also for the next 20 years.

Gil's comments elicited skeptical comments from the Mexican business community. "It is an exaggeration to predict that we won't have any economic glitches over the next 20 years," said Jose Luis Barraza, president of the Consejo Coordinador Empresarial (CCE). Barraza suggested that this kind of stability would not occur unless Fox's successor takes similar steps to control the economy. "We can only attain this kind of security if we continue a responsible management of monetary and fiscal policy," said the CCE president.

Alberto Nunez Esteva, president of the Confederacion Patronal de la Republica Mexicana (COPARMEX), agreed with Gil that a lack of fiscal reforms had hampered Mexico's economic growth. "We have had to depend on remittances from expatriates and high crude-oil prices to boost the economy," said Nunez. The COPARMEX president also noted that Fox would fall short of his promise to attain 7% GDP growth during his six-year term in office. "We may see a growth rate of only 3.4%, which is not sufficient to meet our country's needs," said Nunez.

Some observers were harsher in their criticism of Gil's bold predictions that economic growth would continue for the next two decades. In an editorial, the Mexico City political newspaper La Crisis accused Gil of not learning from history. The newspaper noted that Jose Cordova Montoya, Salinas de Gortari’s Cabinet chief, predicted that economic strength attained in 1988-1994 would continue for three decades. "The members of this Cabinet continue to operate with a broken compass, presenting political discourses that need to be decoded to mean the opposite of what they are saying," said La Crisis. (Sources: Los Angeles Times, 11/17/05; Bloomberg news service, Associated Press, 12/12/05; The Herald-Mexico City, 11/17/05, 12/13/05; El Universal, 12/12/05, 12/13/05; El Economista, La Jornada, 12/13/05; El Financiero, 11/17/05, 12/13/05, 12/14/05; La Cronica de Hoy, 11/28/05, 12/02/05, 12/13/05, 12/14/05; La Crisis, 11/30/05, 12/14/05)