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LADB Staff

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Mexico's 2005 Annual Inflation Rate Lowest in Nearly 30 Years

by LADB Staff
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The Banco de Mexico (central bank) reported the country's annual consumer inflation rate for 2005 at 3.33%, the lowest rate in almost three decades. The rate was slightly higher than the official target of 3%, but far below the 2004 annual rate of 5.2%. The annual inflation rate is the lowest since the current system of measure was created in 1968. The central bank calculates the consumer price index (indice nacional de precios al consumidor, INPC) by monitoring the price of 160,000 products in 46 cities around the country.

At the beginning of the 1960s there were lower inflation figures, but those calculations only used Mexico City as a reference," said Francisco Gutierrez, chief economist for Scotiabank. The latest inflation figure reflects the policies of the Banco de Mexico during the past five years, which has employed strict monetary controls to bring down consumer prices. The INPC has declined from 8.96% in 2000 to 3.98% in 2003 and 3.33% in 2005. The tight monetary policy, however, reflected a sluggish economy, with Mexico attaining a meager 3% GDP growth (see SourceMex, 2005-11-02 and 2005-12-14).

In 2005, the Banco de Mexico reduced interest rates on five occasions in an attempt to invigorate a lackluster economy, which was responding to a weak performance by the manufacturing sector. Critics said President Vicente Fox's administration and the Banco de Mexico placed too much emphasis on low inflation at the expense of economic growth.

Fox's policies differed little from those of his three predecessors, Miguel de la Madrid (1982-1988), Carlos Salinas de Gortari (1988-1994), and Ernesto Zedillo (1994-2000). "Under these policies, industrial production became stagnant, the crisis in the agriculture sector deepened, migration to the US exploded, and unemployment reached unprecedented levels," said the Mexico City daily newspaper La Jornada. El Universal, also a Mexico City daily newspaper, offered a mixed assessment of the administration economic policies.

The newspaper noted several positive economic results promoted by the Fox government, including the growth in foreign reserves, the restructuring of foreign and domestic debt, and the stability of the Mexican peso. "Economic stability [resulting from low inflation] is important, but so is economic growth," the newspaper said in an editorial. "A country that neglects economic growth, tolerates a high rate of unemployment, and allows shortages in its industrial development, agriculture, and service sectors, and which expels a large share of its labor force to other countries, is a dysfunctional country," the editorial went on to say. (Spanish news service EFE, Reuters, 01/09/06; El Economista, La Cronica de Hoy, La Jornada, The Herald-Mexico City, El Universal, 01/10/06)