4-2-2008

President Felipe Calderon Announces Economic Stimulus Package To Counter Effect Of Us Recession

LADB Staff

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

Recommended Citation

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
President Felipe Calderon Announces Economic Stimulus Package To Counter Effect Of US Recession

by LADB Staff
Category/Department: Mexico
Published: 2008-04-02

President Felipe Calderon has unveiled a stimulus package worth 60 billion pesos (US$5.67 billion) intended to protect Mexico from a slowdown in the US, its biggest trading partner. The 10-point plan includes cuts in electricity rates, lowering the social security tax, and temporarily reducing by 3% the corporate income tax (impuesto empresarial a tasa unica (IETU).

Plan includes tax cuts, expenditures on infrastructure

The Plan de Apoyo a la Economia, which the president announced on March 3, allocates 33 billion pesos (US$3.1 billion) for tax breaks and other financial incentives and about 27 billion pesos (US $2.5 billion) for expenditures on public works. The administration said the proposal is necessary to help the Mexican economy survive the economic slowdown in the US, which is Mexico's largest trade partner. Because of the expected US slowdown, the Calderon government reduced its forecast for Mexico's GDP growth this year to 2.8% compared with earlier projections as high as 3.7% (SourceMex, February 06, 2008). "The program that we are announcing today is fundamentally sound," Calderon told business leaders and legislators gathered at the Palacio Nacional.

The president said the proposal consists of "actions that will have an immediate impact and will also help make medium-term growth more dynamic." One key element of the plan is reducing the IETU through June of this year, allowing companies to follow through with plans to expand, invest, and create employment during the first half of 2008. The IETU reduction, implemented as part of the tax-reform package approved by Congress in September 2007, will cost the government about 6 billion pesos (US$567 million). The new tax has been controversial since its inception (SourceMex, September 19, 2007 and January 16, 2008).

The plan also reduces the tax that employers have to pay to the Instituto Mexicano del Seguro Social (IMSS) by 5%, theoretically allowing businesses to expand employment. Additionally, small businesses and self-employed workers who file tax returns online will receive a discount of 1,000 pesos (US$94) in their taxes. The proposal also reduces electricity rates by 10% to 20% to cut costs for businesses and individuals. This measure is expected to cost the government about 7 billion pesos (US$660 million). Finally, the government announced an increase in infrastructure expenditures in the poorest areas of the country. These expenditures are intended to create jobs in many poor communities.

The infrastructure allocations also include new funding for maintenance for pipelines and facilities operated by the state-run oil company PEMEX. A lack of funding for repairs and maintenance on oil-related equipment and facilities has caused leaks and other accidents, creating environmental emergencies in many areas of the country (SourceMex, April 02, 1997, January 05, 2005, and August...
"The increase in funding for PEMEX will not only contribute to generating new jobs but should help promote better labor conditions in the state-run oil company, increased safety for workers, and improved productivity," said Calderon.

**Plan receives mixed reaction**

The president's proposal received mixed reactions, with strong support offered by many businesses and labor organizations. "[This plan] could help create the type of formal jobs that our country needs," said Joel Ayala Almeida, director of the Federacion de Sindicatos de Trabajadores al Servicio del Estado (FSTSE), which represents government workers. Some critics said, however, that the plan is not enough to prevent an economic downturn in Mexico. "The resources announced by the government are not sufficient to support our productive sector," economist Gabriel Perez del Peral of Universidad Panamericana told the Mexico City daily newspaper El Universal. Perez del Peral also noted that the US downturn could last longer than anticipated, and some of the measures in the government's plan expire in the middle of this year. "It looks like the [US] slowdown is stronger than anticipated, which could mean eight months of instability," said the economist.

Other private organizations, such as Consultores Internacionales (CI), said the government must use monetary policy in addition to fiscal policy to stimulate the economy and promote investment. "There is no doubt about it," said CI, "now is the time to reduce interest rates." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 2, reported at 10.57 pesos per US$1.00]