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President Felipe Calderon Announces Another Economic-stimulus Package

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President Felipe Calderon's administration began the year by unveiling another economic-stimulus program that places heavy emphasis on freezing fuel prices for some economic sectors and increasing employment benefits during 2009. The plan, which expands on the president's 2008 economic-stimulus programs, was announced just before key officials like Finance Secretary Agustin Carstens predicted that Mexico's economy would experience zero growth this year, compared with the administration's earlier forecast for a 1.8% growth for 2009. Many critics said the president's new proposal is a step in the right direction but insufficient to provide the spark needed by the Mexican economy.

Plan expands on 2008 initiatives Calderon unveiled the plan named Acuerdo Nacional en Favor de las Familias y el Empleo on Jan. 7, saying it was formulated in consultation with the private sector. Most of the measures, however, merely expand on the initiatives presented by Calderon in March and October 2008 (SourceMex, April 02, 2008 and October 15, 2008). Like the two earlier plans, the new proposal was projected to cost the Mexican Treasury about 60 billion pesos (US$4.25 billion). The president did not make clear how much the funding approved in the latest plan overlaps with money allocated in the two earlier proposals. But he estimated that the various stimulus plans would result in expenditures of 570 billion pesos (US$40.4 billion) on infrastructure projects such as highways, seaports, and other facilities in 2009. In any case, the amount allocated for the latest economic-stimulus plan is slightly above the amount that the government expects to collect this year through the corporate tax (Impuesto Empresarial a Tasa Unica, IETU).

The plan is projected to generate a fiscal deficit for the first time since the mid-1990s. But Miguel Messmacher, chief economist at the Secretaria de Hacienda y Credito Publico (SHCP), also noted that the new plan would add about 120 billion pesos (US$8.5 billion) to the Mexican economy, or about 1% of GDP. The Mexican president emphasized that the new plan was needed to help Mexico cope with the effects of the US economic crisis. "The US economy has fallen into a deep recession, in large part because of the crisis in its financial system," Calderon told reporters. "This phenomenon of unprecedented magnitude has spread rapidly to all regions [of the world]. Mexico is no exception, especially because its economy is closely linked to the economy of the United States." Calderon noted that the situation worsened in the last half of last year, when Mexico began to experience "a period of great difficulties in economic growth, investment, and employment in our country." One of the key measures announced by the president was a move to control energy costs in 2009, with gasoline prices frozen for the entire year. In addition, most industries will benefit from a reduction of 10% in the rate for natural gas and 20% for electricity.

The plan also provides direct benefits for unemployed workers, extending the period in which they will receive benefits and allowing them to draw money more easily from retirement funds deposited in private banks. Additionally, the measure provides direct assistance to some companies,

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particularly small and medium-sized businesses (Pequenas y Medianas Empresas, pymes). Among the measures contained in the proposal is a commitment by the administration to ensure that small and medium-sized businesses account for at least 20% of goods and services procured by the government.

Critics say proposal does not go far enough Some critics said the plan is too narrow because government support is designated for companies that qualify as pymes, which could have as many as 499 employees, and does not provide the same level of assistance to millions of microenterprises around the country. Jose Caudillo Herrera, president of the Camara de Comercio, Servicios y Turismo en Pequeno de la Ciudad de Mexico (CANACOPE), said many businesses that operate "on street corners" were left out of the equation. "The small and medium-sized business and even many of the industrial companies will benefit from this plan, but assistance is not provided to the smaller operations," said Caudillo Herrera. The CANACOPE leader warned that as many as 30% of the country's estimated 3 million microenterprises, which are established operations and not part of the informal economy, could cease operations in 2009 because of economic difficulties. "This administration is providing assistance for everybody, including those in the informal economy, but is forgetting about microenterprises," said Caudillo Herrera.

Legislators from the center-left coalition Frente Amplio Progresista (FAP) went one step further, complaining that the anti-crisis plan does not help people directly. The FAP a coalition comprising the center-left Partido de la Revolucion Democratica (PRD), the Partido Convergencia por la Democracia (PCD), and the Partido del Trabajo (PT) called the proposal "poor, timid, and insufficient" because it does not address the "principal needs of the people." Among other things, said the FAP, the government failed to address the growing problems with overdue debt, particularly on credit cards. "Overdue credit-card debt has become unsustainable," said FAP coordinator Porfirio Munoz Ledo. "President Calderon should have pushed for the creation of a commission comprising consumers, financial institutions, and the government to arrive at some solution." Even though the rescue package does not address consumer debt, the issue is being addressed through other means. For example, the Congress is considering legislation to protect consumers from unfair banking practices, including possibly setting a limit on credit-card interest rates (SourceMex, January 07, 2009).

The opposition Partido Revolucionario Institucional (PRI) questioned the absence of measures to promote job creation in rural areas and in cities along the US-Mexico border, where hundreds of thousands of Mexicans who have been deported from the US are stranded. PRI Deputy Edmundo Ramirez, speaking on behalf of his party's delegation in the lower house, said the lack of such measures is further evidence that the Calderon administration is using the plan as a public-relations ploy ahead of the mid-term congressional and gubernatorial elections in July. PAN legislators disputed the claims, saying the plan has no partisan motivation. "This program is focused on providing benefits to our country's most vulnerable citizens," said PAN Sen. Gustavo Madero Munoz. Other observers also characterized Calderon's plan as insufficient. "This proposal is like an aspirin that is going to reduce the pain but is not going to make the problems disappear," wrote columnist Enrique Quintana in the Mexico City daily newspaper Reforma. "They could even become worse." "One cannot criticize the steps proposed under the plan. They are generally positive," added Quintana. "What we can criticize are the omissions."

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As an example, Quintana said the decision to freeze gasoline prices is a positive step, but a better solution would have been to align the prices with those in the US market. In the first half of 2008, the cost of Mexican gasoline was much lower than in the rest of the world, which led the SHCP to institute some price increases. In the second half of the year, gasoline prices declined sharply in the US and elsewhere because of the global economic slowdown (SourceMex, October 15, 2008 and November 19, 2008), but the SHCP did not make appropriate adjustments. As a result, gasoline prices in Mexico are currently about 40% higher than prices in the US. "Energy prices remain high compared with other economies in the world and that worries us," said Deputy Cesar Duarte Jaquez, president of the Chamber of Deputies.

Other analysts praised the administration's efforts to preserve jobs but said the plan does not take sufficient steps to promote economic growth. Jose Luis de la Cruz Gallegos, an economic researcher at the Instituto Tecnologico y de Estudio Superiores de Monterrey (ITESM), said the government's plan could well create 150,000 jobs, but this would be offset by losses in the most vulnerable sectors of the Mexican economy, such as manufacturing. Analysts said a benefit of the plan is that it would work as a tool to control inflation. They said controls on the cost of gasoline, domestic heating oil, and electricity would have a spillover effect on consumer prices in general. Luis Flores, a senior analyst at Ixe Grupo Financiero, said the plan could result in lower annual inflation this year than had been originally anticipated. Because of this, Ixe has lowered its projection for annual inflation in 2009 to 3.7% from a previous forecast of 3.9%. The forecast is higher than the government's target of 3% for the year, but much lower than the annual 2008 inflation rate, which is estimated at about 6%.

Some analysts noted that the forecasts of lower inflation give the Banco de Mexico (central bank) more leeway to reduce interest rates, which would help stimulate the economy. In a radio interview in early January, Guillermo Ortiz, the chief governor at the Banco de Mexico, confirmed that the possibility of reduced inflation would give the central bank room to lower interest rates. Government projects zero GDP growth in 2009 Projections for the Mexican economy are extremely dire. "We are facing very strong downward pressure on economic activity," Carstens said in unusually frank comments on a local radio show. "We are expecting that our economy will not really grow at all." Private analysts also confirmed a rocky road ahead for the Mexican economy. For example, the rating agency Standard & Poor's released a forecast in early January projecting that Mexico's economy would contract 0.5% this year. Ortiz was even more gloomy, suggesting that the administration's zero-growth proposal was "optimistic." Speaking at a financial conference in Mexico City, he said he anticipated negative growth of the Mexican economy. "We are enormously worried about growth," Ortiz said, declining to offer an exact prediction.

The central bank governor said his predictions were based on indications that the economy probably contracted in the last quarter of 2008. This followed GDP growth of only 1.6% in the third quarter, the lowest in five years. Official GDP data has not yet been released for October-December. Jose Angel Gurria, secretary-general of the Organization for Cooperation and Development (OECD), also painted a grim picture for the Mexican economy this year. He explained in conference calls with Mexican ambassadors and consuls in January that Mexico would feel a deeper impact from the US crisis than other countries. "More than 80% of our exports are destined for the US," said Gurria, who served as finance secretary during the administration of former President Ernesto Zedillo. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 14, 2009, reported at 14.13 pesos per US$1.00.]

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