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## **President Felipe Calderón Puts Positive Spin on Economy in Annual Address; Finance Secretariat Raises GDP Growth Forecast to 4.5 Percent**

*by Carlos Navarro*

*Category/Department: Economy*

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In his State of the Nation address on Sept. 1, President Felipe Calderón cast a positive spin on Mexico's economic future, saying that the government's ability to overcome the downturn in 2009 and the lingering effects of crisis caused by the outbreak of the H1N1 virus, which severely hampered tourism, will help spur growth the rest of this year. On Sept. 8, just a week after Calderón's optimistic address, the Secretaría de Hacienda y Crédito Público (SHCP) raised its projections for Mexico's GDP growth to 4.5% in 2010. Opposition legislators criticized Calderón's annual report, suggesting that it lacked specific proposals to bring Mexico out of its economic stagnation, reduce the country's poverty, and prepare for the possibility of a second recession in the US.

Calderón used the annual address to recite his administration's economic successes. The president said that, during the past year, his administration was able to keep interest rates and inflation low and reduce the public deficit. This deficit reduction was achieved partly through the controversial decision to eliminate Compañía Luz y Fuerza del Centro (LFC), the electric utility that served Mexico City and surrounding states ([SourceMex, Oct. 21, 2009](#)).

Additionally, the report pointed out that Mexico's tax collections increased by 17%. Furthermore, Calderón said, the country's currency reserves stand at a historic high of US\$106 billion, even with the sharp global economic decline of the past two years.

Calderón also pointed to his efforts to promote economic development through expenditures on infrastructure, which amounted to 5% of GDP in the past year. Much of the expenditure on infrastructure was devoted to highways, clinics, and hospitals. "Infrastructure increases competitiveness, promotes a balanced regional development, and, most importantly, generates the jobs that we need so badly," said the president, who cited investments of 130 billion pesos (US\$9.9 billion).

The president noted that, despite the global economic slowdown, his administration did not reduce expenditures on social programs. But Calderón acknowledged that the country's economic recovery has been gradual and uneven and that many people remain in dire straits. Saying he shares the dissatisfaction of many citizens, the president said that poverty rates remain above the levels prevalent before the recent economic crisis and that recent employment gains have yet to compensate for the job losses that occurred during the months of recession.

"I am well-aware that our economic advances have yet to be felt in the pocketbooks of ordinary people," said Calderón.

He also linked the increase in crime and insecurity with the lack of economic opportunities. "Because of a lack of opportunities...thousands of young people fall into crime," said the president.

The annual report lacked the acrimony of past years. Under the format employed this year, the president sent a written report to Congress, which took time to study the document before issuing detailed responses. The initial comments from opposition legislators were not favorable to the president.

### *Opposition criticizes president for lack of proposals*

Sen. Manlio Fabio Beltrones, floor leader for the Partido Revolucionario Institucional (PRI) in the upper house, suggested that the president failed to provide a specific blueprint to deal with Mexico's problems. "We observe that the president's attempt at self-criticism was not properly accompanied by immediate actions and proposals that would allow us to emerge from this economic stagnation, reduce poverty, and prevent the impact of a new slowdown that is forecast for the US," said Beltrones.

In a radio interview, Beltrones said the PRI has some proposals to reactivate the economy, such as reducing the value-added tax (impuesto al valor agregado, IVA) to 15% from the current rate of 16%. Congress approved the increase in the IVA in October 2009 (SourceMex, Nov. 4, 2009 ID 050715), but Beltrones said there is increased support among lawmakers for rescinding the increase because it has been counterproductive.

For the near term, the Calderón administration is projecting continued recovery in the Mexican economy. In a report published on Sept. 8, the SHCP revised its estimate for the country's GDP growth in 2010 to 4.5%, compared with earlier forecasts of 4.1%. But the SHCP admitted that the potential recovery might be stifled by a slowdown in the economy of the US, Mexico's top trading partner. "We might well have a lower growth rate in the second half of the year than in the first half," said the SHCP. "We anticipate a deceleration of the US economy, but this will be compensated by an increase in domestic demand."

The SHCP said growth in the first half of the year was in part the result of strong external demand for Mexican products, especially industrial goods. "Mexico's industrial production and manufacturing registered respective growth rates of 6.6% and 11.6% in the first half of the year," said the SHCP. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Sept. 8, 2010, reported at 13.05 pesos per US\$1.00]

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