Mexican government announces budget cuts in response to economic turmoil

Don Knowland
6 February 2015

Mexico's finance minister, Luis Videgaray, announced at a press conference on January 30 that the Mexican government will reduce spending for 2015 by $8.3 billion below the budget approved last year—a reduction of about 1 percent of gross domestic product (GDP).

Videgaray said the cut was due largely to expectations that the slump in oil prices will continue for years. The price of Mexican crude has tumbled 47 percent over the last year. The drop has cast in doubt Mexico's plans to raise $250 billion by 2018 through selling off national oil assets to giant foreign oil companies.

Mexico normally relies on revenue from the state-owned oil company Pemex for a third of its revenue. While the government purchased hedges against falling oil prices, that protection will expire at the end of the year.

Videgaray also cited a downturn and deflation risks in the world economy, as well as the likelihood that the US Federal Reserve will tighten monetary policy this year, as further reasons for the cuts. Videragay said Mexico needed to take preventive measures to be in a position to convince international financial markets that it can withstand financial contagion.

Despite imposing these cuts, Videgaray declined to lower his November forecast of 3.2 to 4.2 percent growth in GDP, up from estimated growth of 2.1 to 2.6 percent in 2014.

These are fairy tale figures. With these cuts, the Mexican economy will likely grow no more than 2.5 percent in 2015, according to the director of Moody's Analytics for Latin America, who pointed out that the reduced federal spending necessarily would have a negative impact on growth. Videgaray's assertions also contradict the January 8 statement of Bank of Mexico governor Agustin Carstens that Mexico is likely to grow slowly for all of 2015 and for a "good part" of 2016.

The spending cuts announced include substantially lower expenditures by Pemex and by the national electricity company. A plan to build a high-speed train from Mexico City to the state of Querétero has also been suspended. The plan for the train was plagued by corruption in the initial award of the project to a consortium that included a Mexican company that sold or financed the sale of mansions to the wife of President Enrique Peña Nieto and to Videgaray himself. Other major infrastructure projects were also canceled.

Videgaray specified a reduction in the goal of incorporating new adult beneficiaries into the federal pension system as another important cut. He also mentioned unspecified cuts to "subsidies" and other "structural reforms" and "austerity" measures.

The budget cuts will fall heavily on the Mexican working class. They are part and parcel of the government's privatization of the mineral sector of the economy, along with cuts imposed on educational and other workers, under Peña Nieto's so-called Pact for Mexico.

Videgaray also announced that the government would work with the World Bank this year to completely reorganize the Mexican federal budget in line with these restructuring plans.

The downside risks to Mexico's economy are in fact very substantial, especially given the pronounced instability in the global economy.

Consumer prices fell 0.19 percent in the first half of January, cutting the annual rate to a four-year low of 3.08 percent. This was the first January decline in over 27 years.

© World Socialist Web Site

In January, the value of the peso also dropped to more than 15 to the dollar for the first time since the 2009 economic crisis. The drop occurred after lower GDP numbers for the US in the fourth quarter of 2014, and in the immediate wake of the Russian Central Bank's move to cut its interest rate 2 percent to combat recession and a slide in the ruble. The drop in January was the biggest among 16 major counterparts after Brazil's real, according to *Bloomberg* data.

Mexico's central bank announced in late December that it was reviving an intervention program aimed at reducing foreign-exchange volatility, following a 12 percent decline in the peso over the prior six months.

According to some analysts, cutting back government expenditures provides more room for looser monetary policy. Last week, the bank said it would keep rates at a record low 3 percent in an effort to provide economic stimulus.

Carstens, the central bank head, said during the first week of January that there is a high probability that Mexico will need to lift rates if the US tightens later this year. But the resolve of Federal Reserve officials to raise rates is being tested by lower US growth estimates arising from the global economic slowdown.

Mexico's economic turmoil will only deepen the intense social tensions that are present throughout the country, erupting in recent months in the mass protests over the 43 disappeared students in Iquala, Guerrero.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site