

## PRESIDENT VICENTE FOX FACES ECONOMIC CHALLENGES IN 2001

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The year 2000 will go on record as one of the best in decades for the Mexican economy. It will be difficult to match in the foreseeable future. The Gross Domestic Product exceeded 7 percent, inflation was around 9 percent, and the current account deficit remained within reasonable levels, mainly financed by foreign direct investment. These achievements were possible due to a favorable international situation and sound domestic policies in Mexico.

The external environment was among the best Mexico has ever faced. The United States was the leading performer in the world economy, which in turn did wonders for our export sector. The price of oil reached levels not seen since the Gulf war, and oil earnings contributed significantly to the appreciation of the peso, the fight against inflation, and the health of the public sector accounts.

Sound domestic economic policy and a political situation better than expected contributed to a favorable external sector. Thus, we were able to reap the benefits of the structural changes made during the first half of the 1990s and, in particular, those from NAFTA.

However, things do not look as promising for 2001. The U.S. economy is slowing down, and there are still fears of a hard landing. In addition, a lower price of oil in 2001 may complicate the federal budget and the performance of our economy. There are also some lingering clouds in the international environment, coming either from Argentina or South East Asia, which may unsettle the current relative financial stability.

Domestically, President Vicente Fox in his first year in office will not face the severe crisis Zedillo had to deal with in 1995, but he will have an economy on the brink of overheating within a deteriorating external framework. The labor market for skilled people is very tight, and real wage settlements have gone beyond productivity gains. This cannot go on without igniting inflationary pressures, as early as next year, when the peso starts depreciating as a result of lower export growth to the U.S. market and lower oil earnings.

The recent good times, then, should not be a reason for complacency. The new administration will surely be tested on the adequacy of its short- and long-run economic decisions. Fox's economic policy and his negotiation skill will be tested earlier than he probably expects.

Fox will find increasingly difficult to attain its economic goals for 2001 and fulfill his campaign promises. In particular, we consider feasible the GDP growth rate of around 4 percent, but find rather optimistic the inflation target of 6.5 percent.

Our greatest concern, however, lies with Mexico's long-run prospects. The arrival of democracy does not change the medium- and long-term profile of the Mexican economy. Zedillo was able to manage short-run economic policy to properly harvest the benefits of the structural changes implemented during the Salinas administration. His contribution in the reform area, however, was almost nonexistent.

Therefore, the long-term perspective of the Mexican economy will depend on how far Fox can go in implementing second-generation structural reforms. Progress in this area is not a sure bet. He will be the first president in modern Mexico to face a totally divided Congress. He will have a hard time trying to convince PRI and PRD members of the benefits of his proposals, as early as March 2001. Furthermore, he may not be able to block populist measures coming from those opposition parties.

The year 2001 promises to be crucial in defining many of these matters. We find particularly relevant the tax reform package that will be sent to Congress in March, which will show us very clearly what the new administration will be able to achieve.

— **CONSULTORES ECONOMICOS ESPECIALIZADOS, S.A. DE C.V.**  
Dr. Salvador Kalifa-Assad

**Annual Percent Change 2000 from 1999**

|  | GDP<br>1993<br>Peso | Private<br>Con-<br>sumption | Government<br>Con-<br>sumption | Total<br>Invest-<br>ment | Exports | Imports | Consumer<br>Price<br>Index | Exchange<br>Rate | CETES<br>28 Day |
|--|---------------------|-----------------------------|--------------------------------|--------------------------|---------|---------|----------------------------|------------------|-----------------|
|--|---------------------|-----------------------------|--------------------------------|--------------------------|---------|---------|----------------------------|------------------|-----------------|

|  |     |     |     |      |      |      |     |       |      |
|--|-----|-----|-----|------|------|------|-----|-------|------|
| AMERICAN CHAMBER MEXICO                  | 7.2 | 7.6 | 3.9 | 8.7  | 22.1 | 22.7 | 8.7 | 9.470 | 15.2 |
| BANAMEX                                  | 7.3 | 8.7 | 4.6 | 13.6 | 22.1 | 22.6 | 8.8 | 9.470 | 15.1 |
| BANCOMER                                 | 7.3 | 8.6 | 5.2 | 12.0 | 21.3 | 21.6 | 8.6 | 9.500 | 16.9 |
| CAIE                                     | 7.2 | 9.4 | 4.7 | 11.0 | 22.1 | 23.0 | 8.9 | 9.500 | 15.2 |
| CIEMEX-WEFA                              | 7.1 | 7.7 | 3.5 | 8.5  | 17.1 | 17.6 | 7.5 | 9.560 | 13.4 |
| CONSULTORES ECONÓMICOS<br>ESPECIALIZADOS | 7.1 | 8.6 | 4.5 | 14.2 | 22.7 | 23.6 | 8.8 | 9.480 | 15.3 |
| GEA                                      | 6.9 | 8.4 | 3.6 | 11.6 | 21.9 | 22.6 | 8.7 | 9.400 | 14.7 |
| GRUPO FINANCIERO INVERLAT                | 7.1 | 8.4 | 4.5 | 10.8 | 21.7 | 22.4 | 9.2 | 9.850 | 15.3 |
| LATIN SOURCE MEXICO                      | 6.9 | 9.1 | 4.9 | 11.9 | 21.9 | 22.6 | 8.7 | 9.510 | 14.9 |

|                                 |            |            |            |             |             |             |            |              |             |
|---------------------------------|------------|------------|------------|-------------|-------------|-------------|------------|--------------|-------------|
| <b>Consensus – This Quarter</b> | <b>7.1</b> | <b>8.5</b> | <b>4.4</b> | <b>11.4</b> | <b>21.4</b> | <b>22.1</b> | <b>8.7</b> | <b>9.527</b> | <b>15.1</b> |
| <b>Last Quarter (Q3)</b>        | <b>6.6</b> | <b>7.4</b> | <b>3.3</b> | <b>10.0</b> | <b>19.7</b> | <b>20.8</b> | <b>8.8</b> | <b>9.533</b> | <b>14.7</b> |

**Annual Percent Change 2001 from 2000**

|  | GDP<br>1993<br>Peso | Private<br>Con-<br>sumption | Government<br>Con-<br>sumption | Total<br>Invest-<br>ment | Exports | Imports | Consumer<br>Price<br>Index | Exchange<br>Rate | CETES<br>28 Day |
|--|---------------------|-----------------------------|--------------------------------|--------------------------|---------|---------|----------------------------|------------------|-----------------|
|--|---------------------|-----------------------------|--------------------------------|--------------------------|---------|---------|----------------------------|------------------|-----------------|

|  |     |     |     |      |      |      |     |        |      |
|--|-----|-----|-----|------|------|------|-----|--------|------|
| AMERICAN CHAMBER MEXICO                  | 5.1 | 5.2 | 2.1 | 11.4 | 11.5 | 14.9 | 7.6 | 9.870  | 14.0 |
| BANAMEX                                  | 5.1 | 6.1 | 0.6 | 6.4  | 10.0 | 13.0 | 7.4 | 9.810  | 13.9 |
| BANCOMER                                 | 4.6 | 5.4 | 4.5 | 8.2  | N/A  | N/A  | 7.0 | 9.900  | 16.7 |
| CAIE                                     | 4.1 | 4.4 | 3.6 | 3.8  | 7.5  | 9.9  | 7.9 | 10.100 | 14.8 |
| CIEMEX-WEFA                              | 4.4 | 4.0 | 2.8 | 6.4  | 12.8 | 11.5 | 6.7 | 10.140 | 13.2 |
| CONSULTORES ECONÓMICOS<br>ESPECIALIZADOS | 4.0 | 4.5 | 1.5 | 10.2 | 11.4 | 13.9 | 8.4 | 10.170 | 15.7 |
| GEA                                      | 5.5 | 6.2 | 2.1 | 11.2 | 12.1 | 12.8 | 8.1 | 10.100 | 12.8 |
| GRUPO FINANCIERO INVERLAT                | 4.7 | 5.0 | 3.0 | 12.8 | 12.0 | 16.0 | 9.0 | 10.910 | 16.3 |
| LATIN SOURCE MEXICO                      | 4.9 | 5.6 | 1.4 | 16.7 | 7.9  | 13.2 | 7.3 | 10.090 | 12.2 |

|                                 |            |            |            |            |             |             |            |               |             |
|---------------------------------|------------|------------|------------|------------|-------------|-------------|------------|---------------|-------------|
| <b>Consensus – This Quarter</b> | <b>4.7</b> | <b>5.2</b> | <b>2.4</b> | <b>9.7</b> | <b>10.7</b> | <b>13.2</b> | <b>7.7</b> | <b>10.121</b> | <b>14.4</b> |
| <b>Last Quarter (Q3)</b>        | <b>4.9</b> | <b>4.7</b> | <b>1.6</b> | <b>8.8</b> | <b>9.6</b>  | <b>11.5</b> | <b>8.2</b> | <b>10.158</b> | <b>13.7</b> |

|          | GDP –<br>1993 Pesos<br>(000,000,000s) | Private<br>Consumption<br>1993 Pesos<br>(000,000,000s) | Government<br>Consumption<br>1993 Pesos<br>(000,000,000s) | Total<br>Investment*<br>1993 Pesos<br>(000,000,000s) | Exports**<br>US Dollars<br>(000,000s) | Imports**<br>US Dollars<br>(000,000s) | Consumer<br>Price<br>Index<br>Dec./Dec. | Exchange<br>Rate<br>(Pesos/Dollars) | CETES<br>28 Day |
|----------|---------------------------------------|--|---|--|---------------------------------------|---------------------------------------|---|-------------------------------------|-----------------|
| 1999     | 1,501,008.2                           | 1,022,799.9  | 148,188.3   | 331,144.0  | 136,391.1                             | 141,974.7                             | 308.9                                   | 9.6                                 | 21.4%           |
| % Change | 3.7                                   | 4.3  | 1.0   | 1.5  | 16.1                                  | 13.2                                  | 12.3                                    | 4.7                                 |                 |
| 1998     | 1,448,134.8                           | 980,311.8  | 146,741.4   | 326,094.5  | 117,459.4                             | 125,373.0                             | 275.0                                   | 9.1                                 | 24.5%           |
| % Change | 4.8                                   | 5.4  | 2.2   | 9.6  | 6.4                                   | 14.2                                  | 18.6                                    | 15.4                                |                 |
| 1997     | 1,381,525.2                           | 930,152.3  | 143,648.5   | 297,447.2  | 110,431.3                             | 109,807.6                             | 231.9                                   | 7.9                                 | 19.8%           |
| % Change | 6.8                                   | 6.5  | 2.9   | 24.9   | 15.0                                  | 22.7                                  | 15.7                                    | 4.2                                 |                 |
| 1996     | 1,293,859.1                           | 873,655.6  | 139,609.8   | 238,182.1  | 95,999.7                              | 89,468.8                              | 200.4                                   | 7.6                                 | 31.4%           |
| % Change | 5.1                                   | 2.2  | -0.7  | 25.6   | 20.7                                  | 23.5                                  | 27.7                                    | 18.4                                |                 |
| 1995     | 1,230,608.0                           | 854,688.4  | 140,642.6   | 189,639.7  | 79,541.6                              | 72,453.0                              | 156.9                                   | 6.4                                 | 48.4%           |
| % Change | -6.2                                  | -9.5   | -1.3  | -35.0  | 30.6                                  | -8.7                                  | 52.0                                    | 90.2                                |                 |

Source: INEGI and Banco de México. \*Due to data inavailability, the annual average of the gross fixed capital formation was used for 1999 \*\*Trade balance



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