Senate Committee Rejects Calderon's Nominee for Central Bank

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In early March, a Senate committee rejected the nomination of former deputy finance secretary Carlos Hurtado Lopez to assume a vacant spot on the governing board of the Banco de Mexico (central bank). Hurtado served under former finance secretary Francisco Gil Diaz during the administration of ex-President Vicente Fox.

Gil Diaz received slightly better news than his former assistant; in mid-March the government’s auditing agency (Secretaria de Funcion Publica, SFP) determined that the ex-finance secretary had not violated anti-corruption and conflict-of-interest laws when he accepted a post with British-based HSBC Holdings plc. The SFP launched the investigation in January at the request of opposition members of Congress.

The Senate finance committee (Comision de Hacienda), in an 8-4 vote, rejected Hurtado's nomination, with the four members of the governing Partido Accion Nacional (PAN) supporting the nominee and all opposition legislators casting a negative vote. Hurtado would have replaced Jesus Marcos Yacaman, whose eight-year term expired at the end of 2006. At age 63, Yacaman was eligible for another eight-year term, but opted instead to retire after 30 years of service at the Banco de Mexico, first as a researcher and later as a member of the governing board. Article 28 of the Mexican Constitution stipulates that Banco de Mexico governors must be no older than 65 the beginning of a term.

The rejection was a setback for President Felipe Calderon because Hurtado had received wide support from a number of respected economists. "Hurtado is a professional with ample experience," said economist Raul Feliz of the Centro de Investigacion y Docencia Economica (CIDE). Hurtado, like Finance Secretary Agustin Carstens and ex-secretary Gil Diaz, is a University of Chicago-trained economist.

Senators from the opposition parties said they rejected Hurtado's nomination because his performance at the Secretaria de Hacienda y Credito Publico (SHCP) was incompatible with the goal of the Banco de Mexico, which is to control inflation.

At the SHCP, Hurtado was in charge of spending policies at a time when administrative expenditure rose and probably contributed to an increase in the inflation rate. The government reported annual inflation at 4.05% in 2006, more than a percentage point above the targeted rate of 3%. Annual inflation was reported at 3.33% in 2005.

"[Hurtado] is not the best candidate," said finance committee member Jose Eduardo Calzada Rovirosa, a member of the PRI. "There's incompatibility of intentions from when he was deputy
secretary of finance in charge of spending and what he wants to do as a member of the central bank's board, fundamentally because of excessive spending during the past administration."

Also voting against Hurtado were legislators from the Partido de la Revolucion Democratica (PRD), Partido Verde Ecologista Mexicano (PVEM), and Partido Convergencia por la Democracia (PCD).

Calderon has not submitted a new name, but speculation centers on Manuel Ramos Francia, who has served as director of economic research at the central bank. Another possibility is Lorenza Martinez, a senior economist at the Banco de Mexico. "It is possible that other names will surface," said economist Jonathan Heath of HSBC, who also writes a column for the Mexico City daily newspaper Reforma. Regardless of who is nominated, Heath recommended that Calderon make the decision "as soon as possible," so that the Banco de Mexico can make its crucial economic decisions with its full board of five governors.

The Mexican president will have other opportunities in coming years to determine the composition of the central bank. The terms of Everardo Elizondo and Guillermo Guemez will be expiring in 2008, while chief governor Guillermo Ortiz Martinez will complete his service in 2009. Former President Ernesto Zedillo appointed Ortiz to the post in 1997, replacing Miguel Mancera (see SourceMex, 1997-12-17). Fox reappointed Ortiz in 2003 (see SourceMex, 2003-12-17).

**Gil Diaz cleared of corruption charges**

The SFP decision to clear Gil Diaz of corruption and conflict-of-interest charges came just a couple of weeks after the ex-finance secretary resigned as an independent member of HSBC's board of directors. Gil Diaz cited "personal reasons" for his decision to step down from the unpaid position. Opposition members of Congress and other critics said Gil Diaz had obtained the HSBC post because he provided special treatment to the bank while he was still the head of the SHCP (see SourceMex, 2007-07-01).

The SFP said Gil Diaz's resignation had some bearing on its final verdict, but it wasn't the main factor in the decision. The agency said it examined information from the SHCP, the Banco de Mexico, the banking regulator (Comision Nacional Bancaria y de Valores, CNBV), and HSBC and determined there was not sufficient evidence to prove that any conflict of interest had existed.

In clearing Gil Diaz, the SFP warned the former secretary that he must abstain from using any information obtained while he was SHCP secretary in any business venture. The agency said it would use all diplomatic means necessary to verify that the Gil Diaz complies with this directive. Still, some members of the opposition were not pleased with the decision to clear the ex-secretary. PRD president Leonel Cota Montano accused the SFP of "whitewashing" the case. "This determination is a sign that the federal government is covering up all sorts illicit activities," said Cota. (Sources: Notimex, 01/03/07; La Cronica de Hoy, 03/01/07; Excelsior, 03/01/07, 03/08/07; El Universal, 03/01/07, 03/02/07, 03/08/07; Bloomberg news service, 03/08/07; Agencia de noticias Proceso, 03/12/07; The Herald-Mexico City, 02/14/07, 03/13/07; El Economista, 02/14/07, 03/01/07, 03/08/07, 03/13/07; Milenio Diario, 02/14/07, 03/01/07, 03/07/07, 03/08/07, 03/13/07; Reforma, 03/01/07, 03/08/07, 03/13/07; La Jornada, 03/08/07, 03/14/07)