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President Felipe Calderon Appoints Agustin Carstens New Central Bank Head; Two Cabinet Changes Announced

by LADB Staff

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President Felipe Calderon moved to consolidate the direction of economic policy for the remaining three years of his administration by nominating Finance Secretary Agustin Carstens to replace Guillermo Ortiz as chief governor of the Banco de Mexico (central bank). Carstens, who served as deputy director for the International Monetary Fund (IMF) from 2003 to 2006, received overwhelming approval in the Senate, which voted 81-19 to ratify the president's nominee. Calderon appointed his long-time confidant Ernesto Cordero Arroyo, who had been social development secretary, to Carstens' spot as head of the Secretaria de Hacienda y Credito Publico (SHCP). Jose Heriberto Felix Guerra replaced Cordero at the Secretaria de Desarrollo Social (SEDESOL). Neither the SHCP nor the SEDESOL appointments required congressional approval.

Senate overwhelmingly approves Carstens

The Senate's easy approval of Carstens' nomination came as no surprise, as legislators from the three major parties praised his qualifications. The only criticism centered on whether Carstens would be able to maintain the Banco de Mexico, also known as Banxico, as an independent entity, given his close relationship with Calderon. Detractors also said that the president was taking a risk by putting a new person in charge of the central bank at a time of economic crisis. But others suggested the changes would be seamless because Carstens and Ortiz held a similar open-market economic philosophy.

The PRI and the center-left Partido de la Revolucion Democratica (PRD) were most critical about Calderon's delay in presenting his choice for central-bank governor. The president did keep his intentions very close to the vest until Dec. 9, the day he officially announced his nomination of Carstens. The announcement came just six days before the Congress was to conclude its legislative session for 2009, prompting PRD Sen. Carlos Navarrete, president of the Senate, to propose that the ratification be delayed and taken up after the Christmas break. He proposed that the Comision Permanente, a joint committee comprising deputies and senators from all parties, conduct the ratification vote.

In the end, the Senate, which is charged with ratifying the nomination, agreed to consider the matter in the last two days of the session. There had been some thought the president would retain Ortiz, who had expressed willingness to stay on, as chief governor to maintain stability and continuity in economic policy. Ortiz, whose second six-year term was to expire at the end of this year, was a nominee of former President Ernesto Zedillo (SourceMex, December 17, 1997). Zedillo's successor, former President Vicente Fox, retained Ortiz as chief governor for a second term (SourceMex, December 17, 2003).

Some members of the PRI did lobby Calderon to retain Ortiz. "We cannot change our horse in midstream," argued PRI Sen. Joaquin Coldwell. PRI Sen. Francisco Arroyo expressed similar sentiments, saying, "It is risky to try to fix what is not broken." But there was very little PRI opposition to Carstens' appointment, with many PRI legislators recognizing the president's constitutional right to decide on who should fill the post. "Guillermo Ortiz has done a good job at the central bank, but the ultimate decision rests with the president," said PRI Deputy Sebastian Lerdo de Tejada. Some members of the PRD delegation in the upper house, including Sens. Carlos Navarrete and Minerva Hernandez, offered support for both Carstens and Ortiz. Sen. Hernandez described Carstens as one of the "most qualified individuals" to run the Banco the Mexico.

Still, despite the statements of support, a majority of the 30 senators from the center-left parties, which also include the Partido del Trabajo (PT) and Partido Convergencia por la Democracia (PCD), voted against Carstens. Outgoing governor Guillermo Ortiz was good as gone. Although Calderon gave the impression that he might retain the status quo at Banxico, several analysts noted that the relationship between the president and Ortiz was not exactly cordial. "The presumption is that Ortiz will not stay," economist Raul Feliz of the Centro de Investigacion y Docencia Economica (CIDE) told Reuters in early December. "There has been a series of signals that suggest the personal relationship between him and the president is not good." Feliz pointed in particular to disagreements between the president and Ortiz regarding interest rates. Others concurred with this assessment. "Ortiz is leaving the Banxico because he did not have a cordial relationship with the resident of [the presidential palace] Los Pinos," Eduardo Olguin wrote in Milenio.com. Holguin also mentioned the possibility that Calderon lured Carstens away from the IMF with a promise that he could become chief governor of the central bank when the opening developed.

Still, many analysts see little difference in the overall economic philosophies of Carstens and Ortiz. This was reflected in the comments of many analysts who said that they would be happy with either choice. "If there was another name in the mix, we might be a bit worried," said economist Jonathan Heath of the Instituto Mexicano de Ejecutivos de Finanzas (IMEF). "We believe that there will not be major modifications in the way monetary and fiscal policy has been conducted," said economist Gabriel Casillas of JPMorgan Chase in Mexico City.

There is the belief that Carstens will be more open with the Banxico policies regarding interest rates than Ortiz, including publishing documents that were not available during Ortiz's tenure. "I think that Carstens will be more communicative, and it's possible that we might see the publication of minutes from policy meetings," said Casillas. Some analysts suggested that Ortiz's departure could affect Mexico's standing in ways that were not readily apparent. Syndicated columnist Sergio Sarmiento, for example, raised concerns that Ortiz's departure from the central bank would set back some of the prestige that Mexico had gained in international financial circles, namely leadership in the Bank of International Settlements (BIS).

By leaving the central bank, Ortiz would also have to relinquish his role as president of the BIS council. "This is a very significant position, especially at a time when the rules of banking operations are being modified all over the world," said Sarmiento, who pointed out that BIS rules would not allow Carstens to simply step in for Ortiz.

Carstens pledges to keep bank autonomous

One issue that came up before and during the hearings was whether Carstens, given his close connections with Calderon, would have the capability of keeping central-bank policies independent from those of the administration. PRI Sen. Carlos Lozano emphasized during the hearings on Carstens nomination that the nominee cannot become an adviser to Calderon or receive direction from the administration. "At the same time, [Banco de Mexico] should not act in a manner that is isolated from the needs of the country," said Lozano. "The success of Carstens will depend on his capacity to respect his autonomy while serving the best interests of Mexico within the parameters of the law." Carstens reassured the senators and other critics that the bank would remain independent during his tenure. "Autonomy and a good performance for the Banco de Mexico have always been my priorities," Carstens told senators. "I have no intention whatsoever of violating the central bank's autonomy." Some members of the private sector and senators had said before the hearings that the appointment of a new central bank chief governor provided Congress and the administration with an opportunity to change the direction of the central bank.

Salomon Presburger, president of the Confederacion Nacional de Camaras Industriales (CONCAMIN), suggested that the bank's mandate be changed from its function of primarily controlling inflation, interest rates, and money supply to a more proactive role of creating jobs and ensuring that small and medium-sized companies have access to affordable credit. Sen. Navarrete suggested that the Congress should amend the law governing the central bank to allow the institution to take a more active role in promoting economic growth. He acknowledged that the Banco de Mexico has done a good job managing reserves and foreign-exchange parity and keeping inflation in check but said the institution should be allowed to take more proactive steps to support the economy. "Now is the time for the federal government and the Congress to agree on a new role for the Banco de Mexico," said Navarrete. But experts from the IMEF and CIDE opposed changing the role of the central bank, saying that adding a new role for Banxico would dilute its mission. "We need structural reforms in many areas, such as taxation, labor, energy, and the legal arena but not on the structure of the Banco de Mexico," said Feliz. Despite Navarrete's heavy lobbying, the Senate decided only to take on Carstens' nomination and not address changes to the role of the central bank.

Even though Carstens does not officially begin his term until Jan. 1, 2010, the new chief governor was forced to immediately address an important issue affecting Mexico's standing in the international credit markets. On Dec. 15, the day Carstens was confirmed, Standard and Poor's (S&P) lowered its rating for Mexico's debt to BBB, which is considered just above the "junk status" of BB. The decision was based on Mexico's growing budget deficit and projections for reduced oil-export revenues.

Carstens downplayed the S&P's decision, saying it doesn't have much significance. He said the markets "rate Mexico on a daily basis." He also expressed confidence that the ratings for Mexico's sovereign debt would improve in 2010 as the economy recovers. Calderon's choice of finance secretary questioned While Carstens received strong support as the new head of the central bank, opposition parties criticized Calderon for making politically motivated appointments to the SHCP and SEDESOL, with both new secretaries loyal members of the governing Partido Accion Nacional

(PAN). "[Calderon] should not be taking party loyalty into account," said PRI national president Beatriz Paredes. "These are two very important positions." Deputy Alejandro Encinas, PRD floor leader in the lower house, was more blunt. "These two appointments are an embarrassment for the country," he said.

Critics were skeptical about the new finance secretary's qualifications. Cordero's only direct management experience in the financial field was as director of the government's public works bank (Banco Nacional de Obras y Servicios Publicos, BANOBRAS) and as head of the economic-analysis division at the Secretaria de Energia, Minas e Industria Pareestatal, predecessor of the Secretaria de Energia (SENER). "[Cordero's] credentials are not so solid," said PRI Deputy Salvador Manzur. Detractors also cited Cordero's poor record as head of SEDESOL, with poverty levels in Mexico increasing despite programs like Oportunidades. "Beyond the support or opposition to Cordero, we cannot find any results that would make the work of the social development secretary stand out," wrote Samuel Garcia in the Mexico City daily newspaper Milenio.com. "On the contrary, the results are not good on the fight against poverty, the principal function of SEDESOL." "[Calderon] is rewarding incompetence with a high-level position," Encinas said in reference to Cordero's tenure at SEDESOL. But others said Calderon's close relationship with Cordero and with Economy Secretary Gerardo Ruiz Mateos, who was appointed to the post in mid-2008 (SourceMex, August 06, 2008), will serve him well as he negotiates with the Congress on economic-policy matters. "Cordero will have to face deputies and senators who have made decisions that are contrary to those proposed by the president," wrote columnist Martin Moreno in the daily newspaper Excelsior.

These analysts noted that Cordero should do well at the SHCP as long as he retains the competent deputy secretaries who served under Carstens, including Alejandro Werner and Miguel Messmacher. "I think [the Congress] is going to give him the benefit of the doubt," said Casillas of JPMorgan Chase. "But it's going to be important that he retain Carstens' team." Some observers suggested that Felix was appointed to head SEDESOL as a political favor. There was talk that the new social development secretary had ambitions to run again as PAN candidate for governor of Sinaloa, after having lost a tight race in 2004 (SourceMex, November 17, 2004).

By taking the SEDESOL post, Felix leaves the path open for Manuel Clouthier, whose father was a popular PAN politician who died in a mysterious car crash. Clouthier came in third in the election, behind Carlos Salinas de Gortari of the PRI and Cuauhtemoc Cardenas of the PRD. "By taking the SEDESOL post, Felix would be supporting his party and leaving an open path for Manuel Clouthier," said the Mexico City daily newspaper Excelsior. Felix, who was promoted from his post of deputy social development secretary for small and medium-sized businesses, promised to continue to strengthen Oportunidades and other SEDESOL programs.

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