Statement by Agustín Carstens, Governor of Banco de México, to IMF Governors and Executive Directors

May 23, 2011

Governors,

Members of the Executive Board,

The International Monetary Fund (IMF) was established in the spirit of cooperation for the well-being of all member countries. Towards that end, I firmly believe that transparency and fairness in the selection of its Managing Director (MD) is essential for the Fund´s legitimacy, cohesion, and effectiveness.

To facilitate the transparent and merit-based selection process, I hereby offer an overview of my professional background; economic policymaking record; managerial and diplomatic skills, with particular attention to multilateral cooperation; understanding of the Fund and the policy challenges facing the Fund´s diverse membership; and, in closing, my strategic vision for the institution.

PROFESSIONAL BACKGROUND

I am an economist, having received my bachelor´s degree from the Instituto Tecnológico Autónomo de México (ITAM) and a master´s degree (MA) and PhD from the University of Chicago. My fields of specialization were international economics and finance, and economic development.

I have over 30 years of public service. I started my career in late 1980 in Banco de México (Mexico´s Central Bank) and was associated with the institution until mid-1999 (including 3 years I spent at the University of Chicago to earn my MA and PhD). In these 19 years I went through the ranks, from foreign exchange trader to treasurer, chief of staff to the Governor, and head of the Economic Research Department.

From mid-1999 to late 2000 I had the honor to serve as Executive Director at the Fund, representing Mexico, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Venezuela, and Spain. The chair I was privileged to represent covers the whole range of countries that participate in the Fund: low income (Honduras, Nicaragua), middle income (Mexico, Venezuela, El Salvador, Guatemala, and Costa Rica), and advanced (Spain).

From late 2000 to mid-2003 I served in Mexico´s Ministry of Finance as Undersecretary. I was responsible for macroeconomic planning, financial sector regulation and supervision, coordination and oversight of our development banks, Mexico´s relationship with international financial institutions, and debt management.

In August 2003 I returned to the IMF as Deputy Managing Director (DMD). This provided me with the opportunity to work closely with two distinguished European Managing Directors: Horst Köhler and Rodrigo de Rato. In my purview as DMD, among other issues, I had the responsibility of managing the Fund´s relationship with over 70 countries. These included countries from Europe (among them, Italy, Spain, Greece, Portugal, and Belgium); North Africa and the Middle East (including Tunisia, Morocco, and Lebanon); Africa (Mali, Senegal, Tanzania, Burundi, and others); Asia (including Philippines, Malaysia, Cambodia, and Pakistan); Latin America (from Uruguay and the Dominican Republic to most of the Caribbean nations); and several other countries as varied as Armenia and Australia.

In December 2006 I was designated by President Felipe Calderón as México´s Minister of Finance. I was responsible for tax policy, tax administration, customs, expenditure and debt management, and financial sector regulation and supervision.

In December 2009 I was nominated by President Calderón and ratified by the Mexican Senate for a six year term as Governor of Banco de México, the country's autonomous Central Bank.

I am not a member, and never have been, of any political party.

ECONOMIC POLICY RECORD

When I started as an economist in 1980 Mexico was experiencing severe economic problems: very high inflation, disorderly public finances, monetary policy dominated by fiscal considerations, an unsustainable fixed exchange rate, a weak balance of payments, excessive public debt, and a poorly supervised and regulated financial system. Even though Mexico continues to confront challenges in terms of economic and human development, poverty alleviation and income distribution, today the country is enjoying rapid economic growth, low and controlled inflation, no balance of payments problems, record levels of international reserves, near balanced public finances, a debt to GDP ratio of approximately 35 percent, and a solid banking system which to a large extent is already Basel III compliant. This structural transformation required a major overhaul in the economic policymaking in my country. Since early on in my career I have had the opportunity to participate in the policymaking relevant to this transformation, with more of a direct and substantial contribution as my responsibilities have increased. Among the most significant policy transformations in Mexico that I have participated in, I would like to highlight the following:

1. The establishment of the autonomy of Banco de México;
2. The external debt renegotiation in 1989, under the Brady Plan;
3. The shift from fixed to a managed, and finally to a freely floating exchange rate regime;
4. The reform of Mexico´s pension fund system, in several stages;
5. The strengthening the regulation and supervision of Mexico´s financial system, from a situation where we had sequential banking crises (up to 1995) to today´s situation where we have a strong, well-capitalized banking system;
6. Several fiscal reforms, including two under my watch as Minister of Finance;
7. Also as Minister of Finance the approval of four Federal Budgets presented by a minority government, which required extensive political negotiations;
8. The inclusion of collective action clauses in Mexico´s external debt in 2002;
9. The recent creation of a Financial Stability Council;

10. Strengthening of the inflation targeting regime followed by Banco de México since 2001;
11. The design and implementation of the hedging program for Mexico´s public finances´ oil price exposure through derivative markets; and
12. The use of the IMF´s Flexible Credit Line (FCL) as a commitment vehicle to assure solid macroeconomic management.

Let me stress that all these reforms have been the result of successful teamwork, which is essential, particularly in situations of crisis management, where I have ample experience.

MANAGERIAL SKILLS

My responsibilities in the Central Bank, Ministry of Finance, and the IMF have allowed me to acquire the skills to manage very complex institutions, including one with multinational and diverse staff, and with international operations, such as the Fund. I have worked closely with the Fund´s staff and I know they are its most important asset.

DIPLOMATIC SKILLS AND APPRECIATION OF MULTILATERAL COOPERATION

Very early in my career I recognized the importance of diplomacy. Mexico has traditionally been an active participant in multilateral affairs (indeed, Mexico is a proud founding member of the Fund, having participated in the 1944 Bretton Woods Conference). I acquired diplomatic skills on the job in my country, which were further shaped and enhanced during the time I served in the Fund as Executive Director (ED) and as DMD. In fact, in my purview as DMD, I was responsible for managing the IMF´s relationship with other international financial institutions (excluding the World Bank), and the United Nations system, which gave me both experience and profound appreciation for effective coordination among multilateral organizations.

In addition, I have also played important roles in several fora designed to enhance multilateral cooperation:

a) Active participant in the G-20 process since its inception;

b) Chairman of the Joint IMF-World Bank Development Committee, 2007 – 2009;

c) Governor of Mexico in the IMF, World Bank and IDB;

d) Current member of the Financial Stability Board (FSB) Steering Committee and Co-chair of the America´s FSB Regional Consultative Group; and

e) BIS Board Member.

PROVEN UNDERSTANDING OF THE FUND AND THE POLICY CHALLENGES FACING THE FUND´S DIVERSE MEMBERSHIP

I have the advantage of knowing the Fund from three different points of view, given the responsibilities I have had: as a member country authority, as Executive Director, and as a member of the management team and staff (DMD). Thanks to this I have a thorough understanding of the Fund as an institution, and its challenges. At the same time, given the composition of the chair to which Mexico belongs, the broad purview I had as DMD and my engagement for so many years with the IMF, I have a clear understanding of the challenges of the Fund´s diverse membership.

STRATEGIC VISION TO ADVANCE THE GOALS OF THE FUND

The global financial crisis has vividly demonstrated how interconnected our world has become in the 21st century. While globalization has lead to unprecedented growth for many countries, be they advanced, emerging, or low income, the crisis reminded us that in an interconnected world maintaining stability and avoiding and resolving crisis is a collective responsibility.

The IMF plays a unique role as the platform for global economic collaboration. With 187 member countries, it has a truly global representation, and with a staff that is both highcaliber and diverse, it has the intellectual firepower and credibility to deliver objective, quality analysis and practical solutions, in short, to serve as the trusted advisor to member governments.

In the last few years, the international community has taken some important steps to strengthen the IMF:

- The representation in particular of dynamic emerging market economies was increased to better reflect their economic weight in the world, while poorer countries were protected. These adjustments required substantial political effort on the part of many countries, and the success of the reform is testament to the international community´s recognition of the importance of the Fund´s legitimacy.

- The global financial safety net was revamped and new instruments were developed to avoid and resolve crises. My country, Mexico, benefitted from liquidity insurance that the IMF provided which helped us contain the spillovers of the global crisis.

- And the IMF's financial resources were increased to make its crisis fighting capacity commensurate with the size of the challenges in a globalized world.

While much has been achieved by this joint effort of the international community, the reform agenda remains unfinished. Unfortunately, with countries emerging from the global crisis with diverging problems, incentives and enthusiasm for joint action is fading. Advanced countries are focusing on fiscal reforms to ensure medium-term fiscal sustainability; many emerging market countries in Asia and Latin America are struggling with managing large capital inflows and a few are starting to face overheating; and middle and low income countries in particular have been hit hard by commodity price increases. At the same time, Europe is focused on the crisis in some Eurozone members, and many countries in the Middle East and North Africa are at the beginning of a long political and economic transformation.

There is no doubt that the Fund has to serve all its membership. Needless to say there always will be urgent country-member issues (such as the recent crises in the Eurozone and in the Middle East and North Africa) that will need to take precedent, and will absorb the attention of the Managing Director, irrespective of his/her nationality. Precisely one of the challenges that any MD faces is to identify the issues that require the most prompt and appropriate response by the institution. This would allow the deployment of resources (human, technical and, in given cases, financial) to support the member-countries in greatest need, but this should be done without disregarding the rest of the membership. Always there will be countries with other issues to tackle, and the Fund should be in a position to respond to their needs also.

We know where the current crises and urgent matters are today (Europe, the Middle East, and North Africa), but we do not know with certainty where the next ones will erupt. Therefore we need a Managing Director who can best serve all of the member countries, not merely those experiencing challenges at one particular point in time.

While all crises erupt locally, in today's interconnected world they have the potential to affect us all. But for us to act, we need a legitimate global framework so that the international community can effectively support individual countries in their own reform efforts. And therefore the governance reforms that have begun need to be solidified and completed.

To remain relevant, the Fund will have to deliver on improving the international monetary system, whose deficiencies were once again made evident during the crisis. Fund work on global imbalances and capital flows will require bold consensus building and the will of its membership to move forward.

The Fund must also pay special attention to its members from low income countries (LIC). While the current crisis has diverted global attention from the fight against poverty, LIC assistance through appropriately funded programs is essential for crisis resolution, and in this capacity, the Fund is also in a unique position to make a significant contribution toward the fight. As for crisis prevention in LIC and middle income countries, I cannot think of a better instrument than the Technical Assistance (TA) provided by the Fund. During my tenure as Deputy Managing Director I heard firsthand from many of you about the benefits TA had brought to your countries. I also know from you that more work by the Fund is needed during the implementation phases of its TA recommendations.

At the same time, while emerging markets representation has been strengthened in global economic decision making, it is imperative that they have a stronger voice in the design and implementation of the Fund´s policies. This should come with their sharing more fully the responsibility of being stewards of the global economy.

Finally, the Fund must remain legitimate in its three operational dimensions: staff, Executive Board, and Management. A diverse staff enhances legitimacy by providing a more balanced perspective and by being more attuned with member countries. The 2010 voice and representation reforms go a long way in addressing Executive Board imbalances. In the future, this process needs to continue.

The next Managing Director of the IMF must serve the member countries by leading the institution and its staff and, in accordance with the Fund´s mission, help forge political consensus amongst members for policies that maximize global welfare.