

**Remarks by Agustín Carstens, Governor of Banco de México
at the US-Mexico Chamber of Commerce Good Neighbor Awards**

Washington D.C., May 12, 2011

Mr. Al Zapanta,

Chairman Ben Bernanke,

Governor Enrique Peña Nieto

It is an honor and a pleasure to be here tonight, at the US-México Chamber of Commerce 2011 Good Neighbor Award event. At the outset, I would like to commend the US-México Chamber of Commerce, and in particular its heart and soul, Al Zapanta, for its unrelenting effort to bring our two great nations together, promoting always cooperation and fair trade.

Also, I would like to thank the Chamber for having chosen me as one of the recipients of this year's Public Sector Award. It is particularly meaningful for me to receive it together with Chairman Bernanke, an

outstanding economist, exemplary public servant and Chairman of the Federal Reserve System (Fed).

I have to say that Chairman Bernanke has done a phenomenal job during the last years in steering the US economy through extremely turbulent waters, fostering at the same the recovery of world economic growth and the return to stability in international financial markets. We all have been extremely fortunate to have Ben as Chairman of the Fed precisely at the time when the US has been bravely tackling its most severe economic challenge of the last 80 years.

I tend to believe that the award that both Chairman Bernanke and I are receiving is meant more than anything to celebrate the very close cooperation and collaboration that has characterized the relationship between the Fed and Banco de México for decades. This relationship between both central banks goes back to at least 85 years, pretty much since the foundation of Banco de México in 1925. As a matter of fact, the original chapter of Banco de México was drafted having as benchmark the Fed's one.

Banco de México throughout the years has received many technical assistance missions from the Fed, and several of our officials have

been trained at the Fed. From a more substantive point of view, México has benefited from multiple swap agreements that both central banks have subscribed since 1941. These arrangements have provided timely financial support to México during different episodes we have faced balance-of-payments problems, and more recently when some discontinuities appeared in the international financial system, not related to specific problems attributable to Mexico. The financial support we received from the Fed through these means has been invaluable for the adoption of corrective macroeconomic policies and to regain access to capital markets.

Let me illustrate the evolving nature of the cooperation between the Fed and Banco de México, as the Mexican economy has become more resilient and less prone to crisis.

As a result of the daunting financial crisis of 2008–2009, an unprecedented shortage of US-Dollar liquidity erupted that, if left unattended, was threatening the ongoing crisis to escalate. This evolution would have had disastrous consequences for the world economy and trade. Under such circumstances, the Fed offered several central banks of strategic importance, among them Banco de México, temporary currency arrangements. The swap mechanism for

México was set for up to US\$30 billion, of which Mexico only accessed US\$3.2 billion, resources that by early 2010 were already fully paid. This temporary facility offered by the Fed was essential to kick-start the world US-Dollar credit market, thereby eliminating a bottleneck that was choking world trade and economic growth.

I do not want to leave you with the impression that cooperation between the Fed and Banco de México has only flourished in times of crises. In October 2004, the Fed and Banco de México connected the payments system of both countries. The end result of this cooperative action was that Mexicans living and working in the US can now send money to their families in a safer and timelier manner, at a noticeable lower cost than the one they had to pay before the direct connection between our payments systems was established.

Ladies and gentlemen,

México is emerging from this period of hardship for the world economy with renewed strengths. I venture to say that México is one of the few G20 member countries who:

- 1) Performed a fiscal adjustment in 2009, has kept its fiscal accounts pretty much in line, and has not seen a substantial increase in its debt/GDP ratio, as it has stayed close to 35% of GDP.
- 2) Did not face the need to implement unconventional monetary policy measures, and kept at the same time inflation under control.
- 3) Has preserved a strong and well-capitalized banking system, with the capacity to contribute importantly to economic growth.
- 4) Has a strong balance-of-payments situation, with exports growing more than 20%, attracting substantial amounts of foreign capital and with record-high levels of international reserves. This has been complemented by access to an unconditional Flexible Credit Line (FCL) of US\$73 billion with the International Monetary Fund (IMF). This credit line has the added benefit that represents a strong commitment by President Calderon's Administration to preserve a solid macroeconomic framework for the coming 20 months.

These conditions allowed 2010 to be a good year for the Mexican economy, as we experienced a much higher rate of economic growth than originally forecasted, 5.5% vs. 3.0%, and lower inflation. This combination, *i.e.* higher growth and less inflation, is likely to be

repeated in 2011. As a matter of fact, for the first time in several years the Mexican economy in 2011 will growth at a faster rate than Brazil's.

On the other hand, we also expect a continued recovery of the US economy, as private sector expenditure and net exports pick up steam.

For all these reasons both of our economies will benefit, particularly if we take advantage of the actual situation to further deepen collaboration and cooperation between México and the US at all levels, for the well-being of both the American and Mexican people.

Thank you very much.