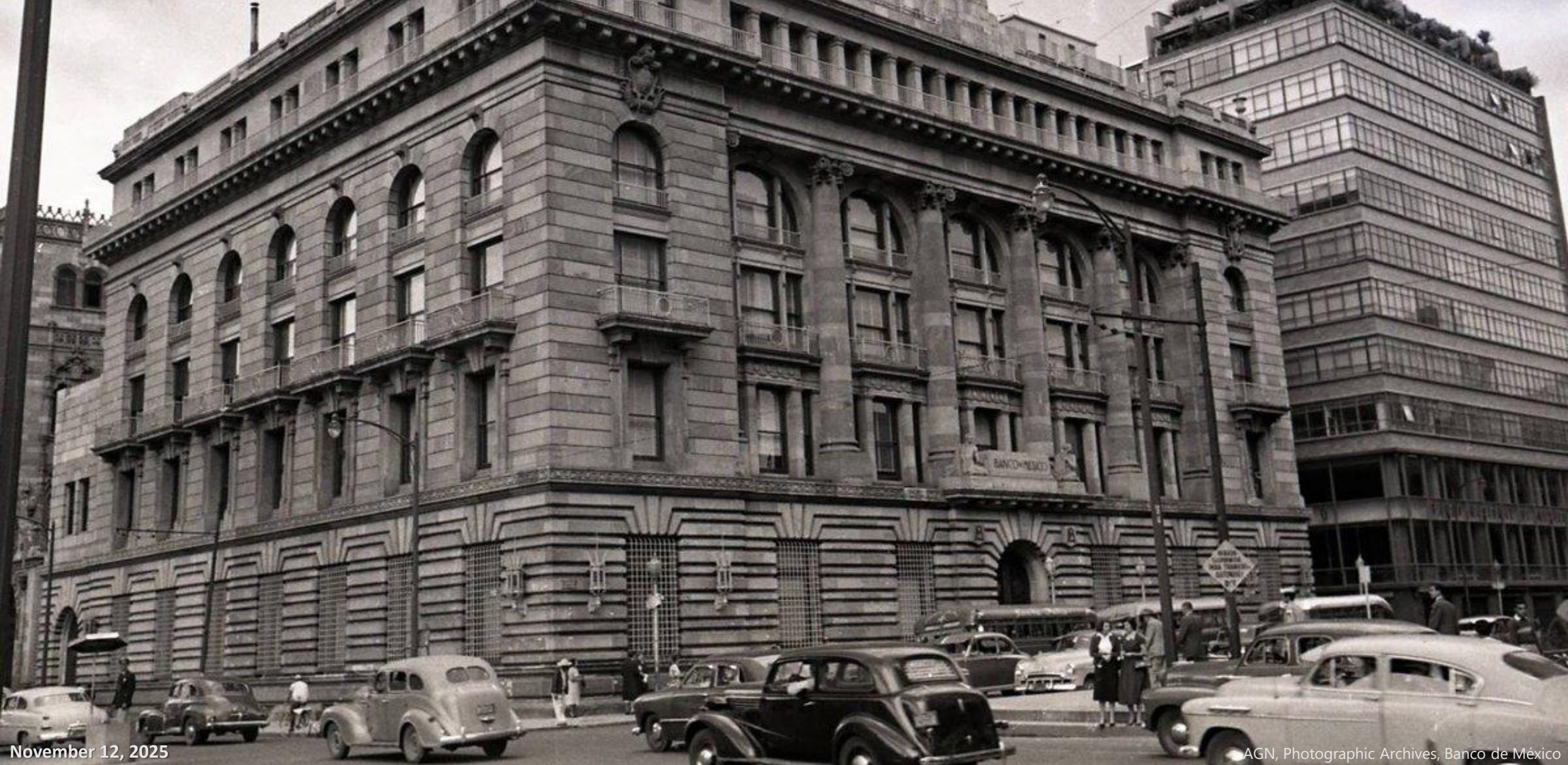




AGN, Photographic Archives, Banco de México

Dr. José Gabriel Cuadra García, Deputy Governor of Banco de México

## Central Bank Independence: Latin America Policy Dialogues



*\*The opinions expressed are the responsibility of the author and do not necessarily represent the institutional position of Banco de México*

# Regulatory Framework in the Early Years of Banco de México

1932

*Reforms  
to several  
laws*

*Foundational Roles of the  
Central Bank*

1935

*Reforms  
to several  
laws*

*Consolidation Phase*

1938

*New  
Organic  
Law*

*Shifting Rules on Central Bank  
Financing of the Government*

1941

*New  
Law*

*Increased Government  
Influence*

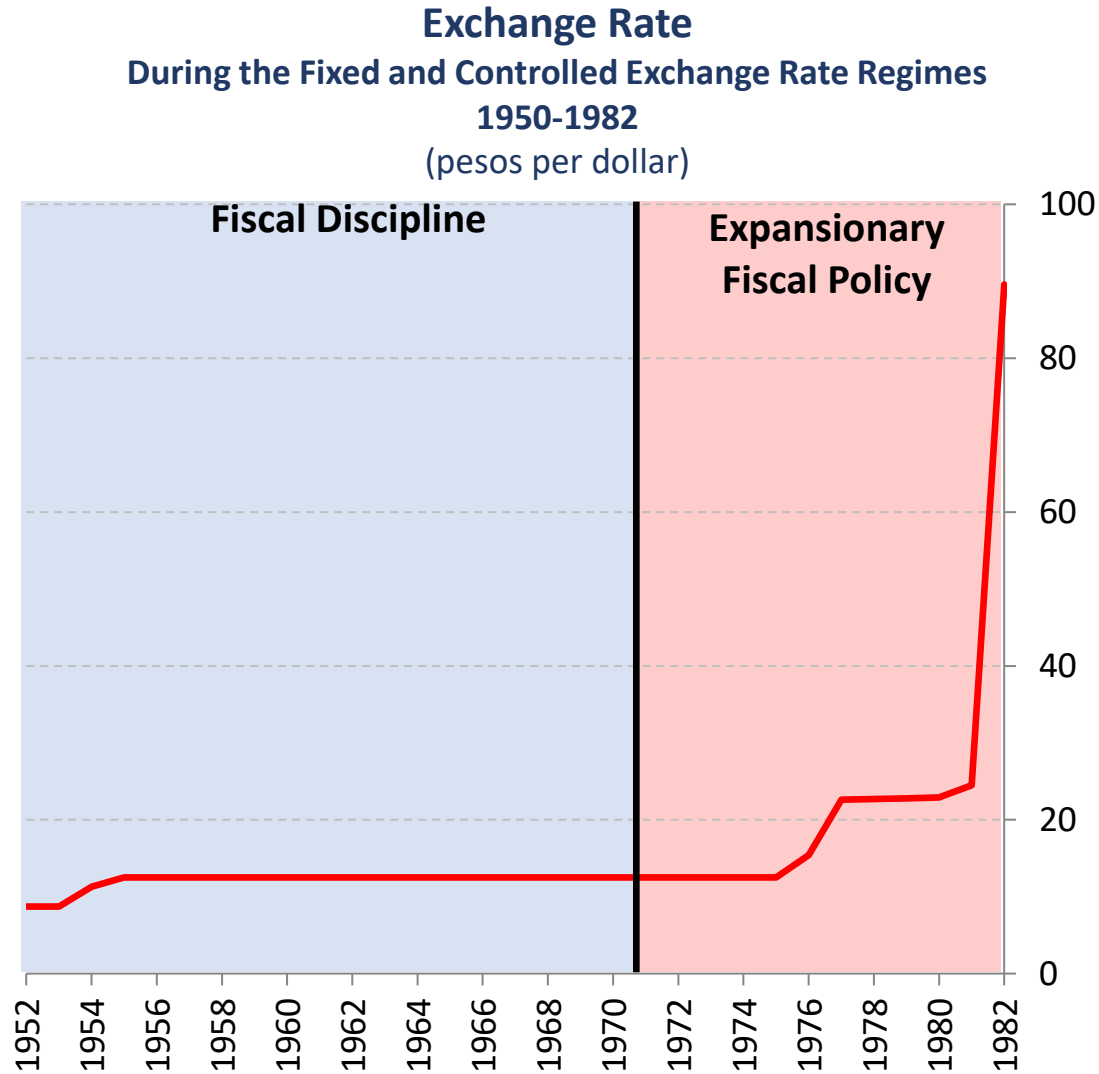
*Legal Foundations*

*Autonomy was not explicit, but  
ceilings on credit to the government  
helped contain risks*

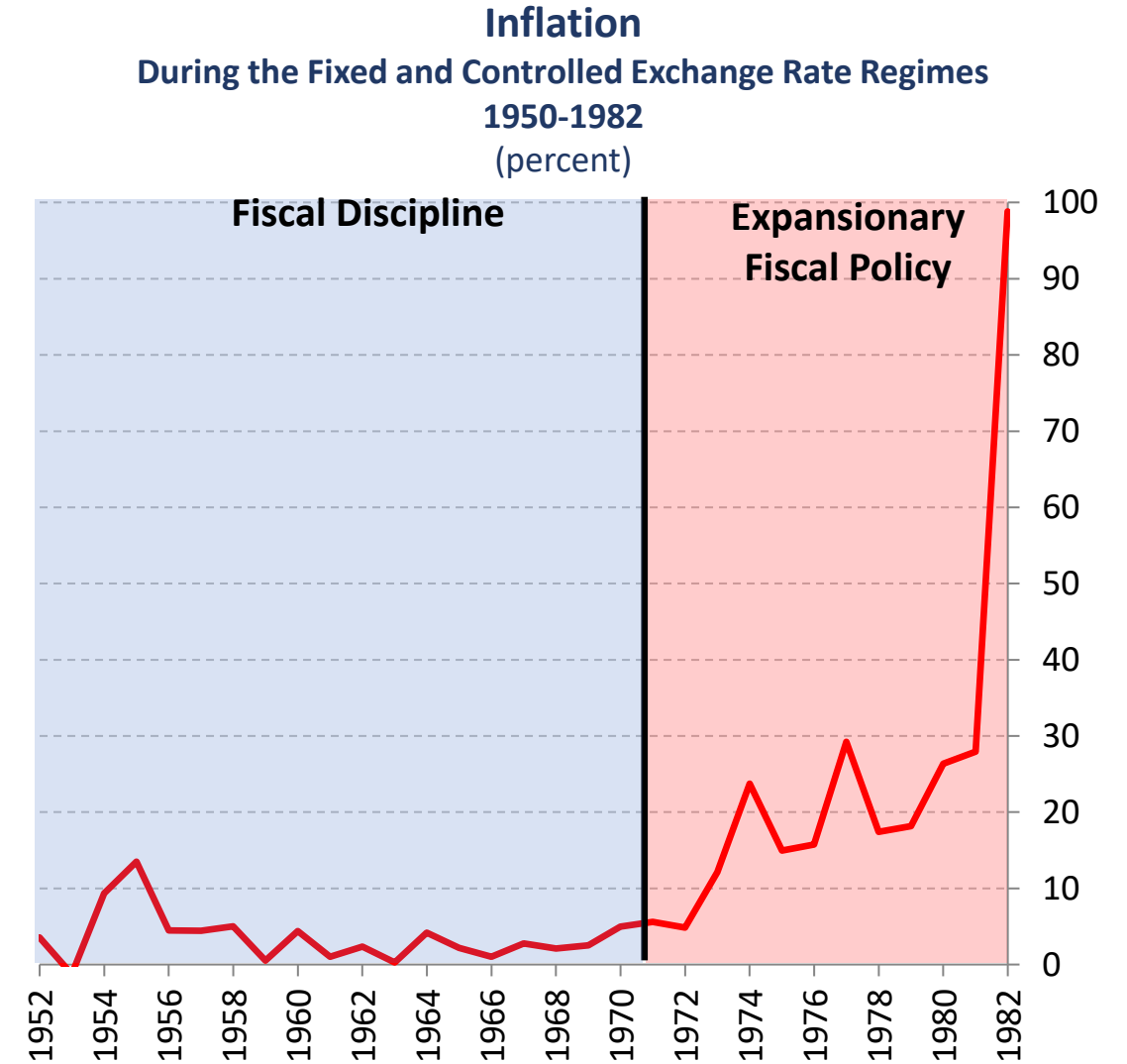
*Fiscal Dominance*

*Those limits were removed in the  
1938 and 1941 reforms, leaving the  
central bank exposed to fiscal  
dominance.*

# The fixed exchange rate regime coincided with periods of both fiscal discipline and expansionary policies

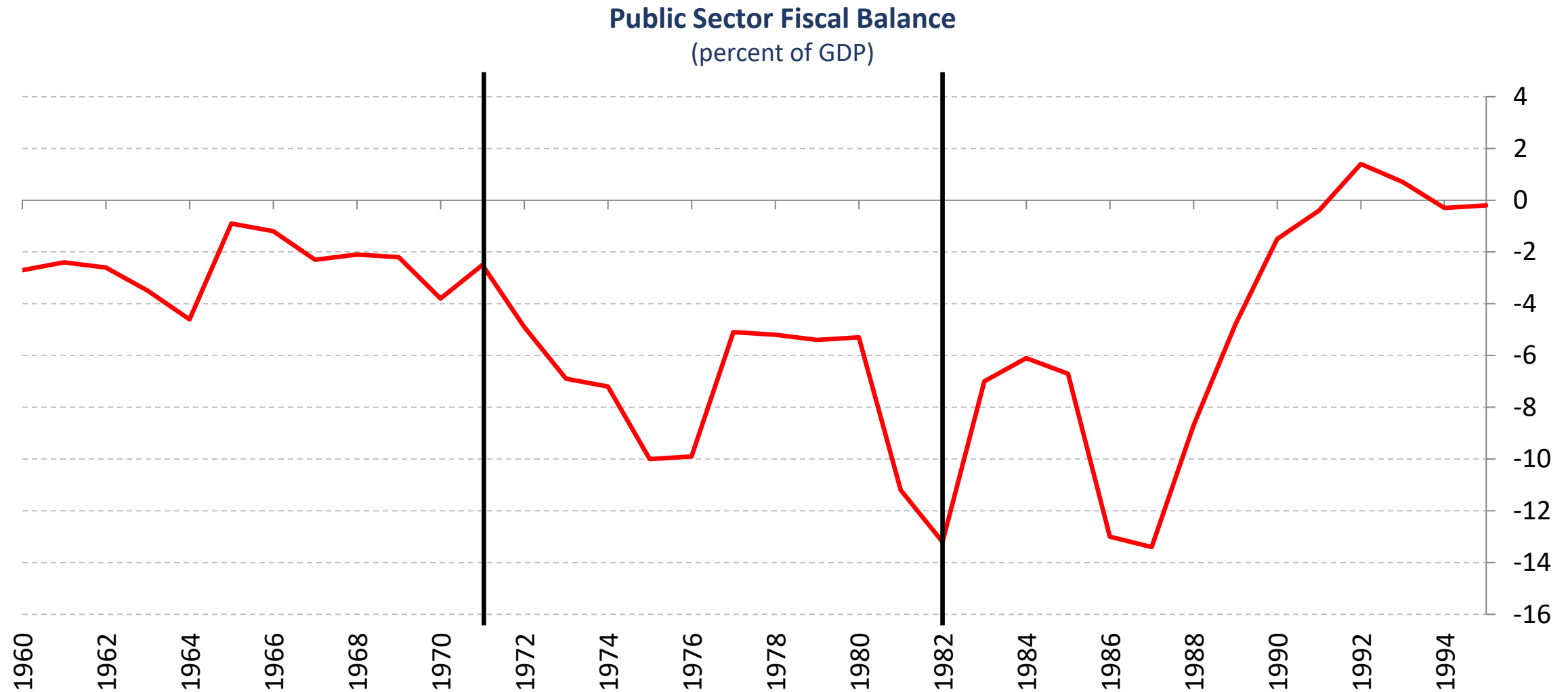


Source: Messmacher, Miguel y Werner, Alejandro. (2000). "La Política Monetaria en México: 1950-2000".



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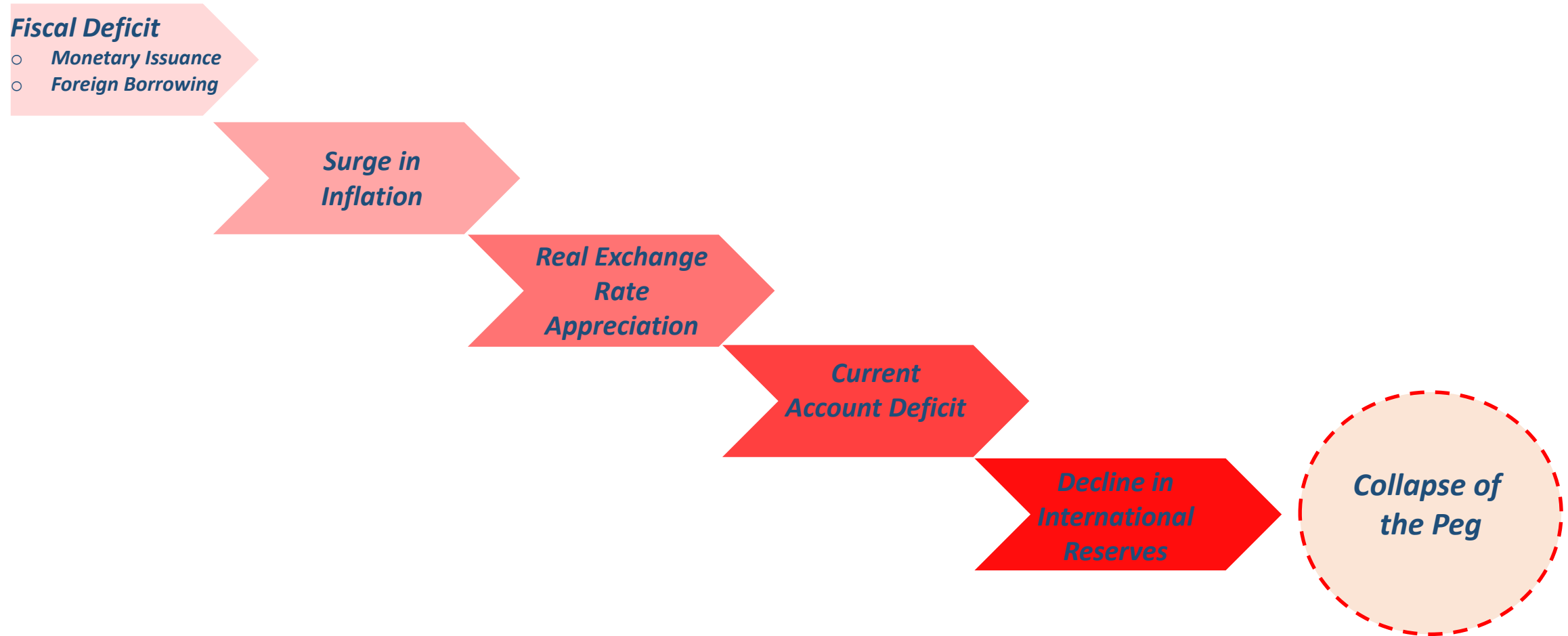
# The 1970s marked the beginning of expansionary macroeconomic policies



Note: The vertical lines mark 1971 and 1982. Data from 1971 onward refer to the total public sector balance; earlier data correspond to the public sector balance.

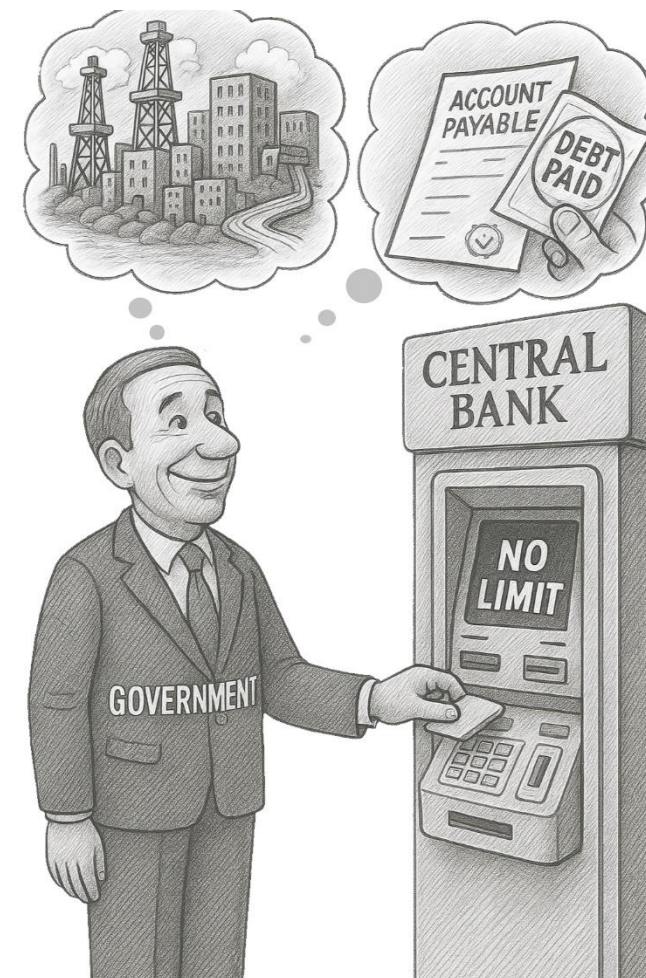
Source: Messmacher, Miguel y Werner, Alejandro. (2000). "La Política Monetaria en México: 1950-2000".

# Expansionary macroeconomic policies combined with a fixed exchange rate led to a balance-of-payments crisis



# Fiscal dominance in Latin America

*The 1970s and 1980s were marked by recurrent episodes of fiscal dominance across several Latin American economies*



Source: OpenAI (October 20, 2025).

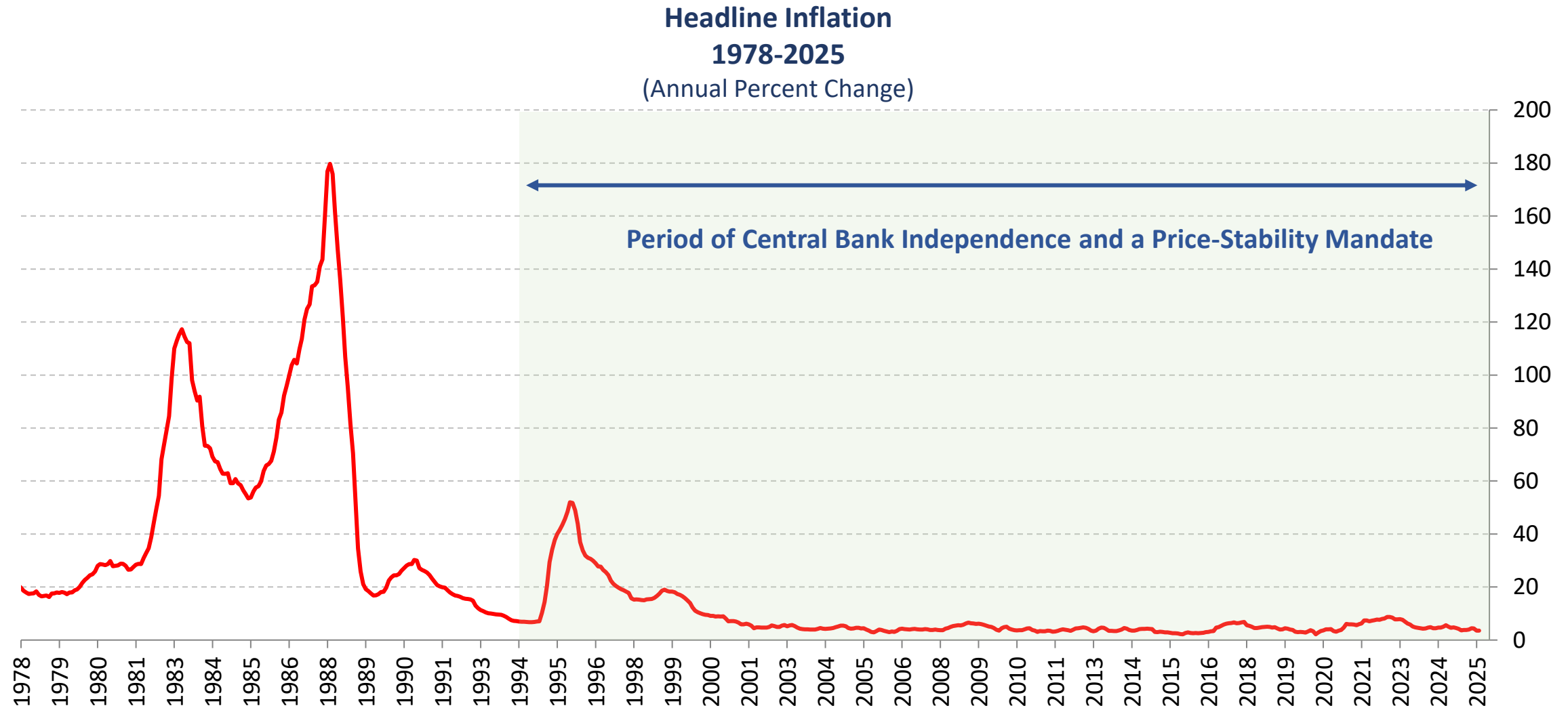
ChatGPT Enterprise (GPT-4o). [Generative AI Tool]

# On April 28, 1994, a constitutional reform came into effect granting autonomy to Banco de México

## The Constitution's Article 28 establishes that:

- *“The State shall have a central bank that shall be autonomous in the exercise of its functions and in its administration.”*
- *“Its primary objective shall be to ensure the stability of the purchasing power of the national currency, thereby strengthening the State’s role in guiding national development.”*
- *“No authority may require the bank to grant financing”*

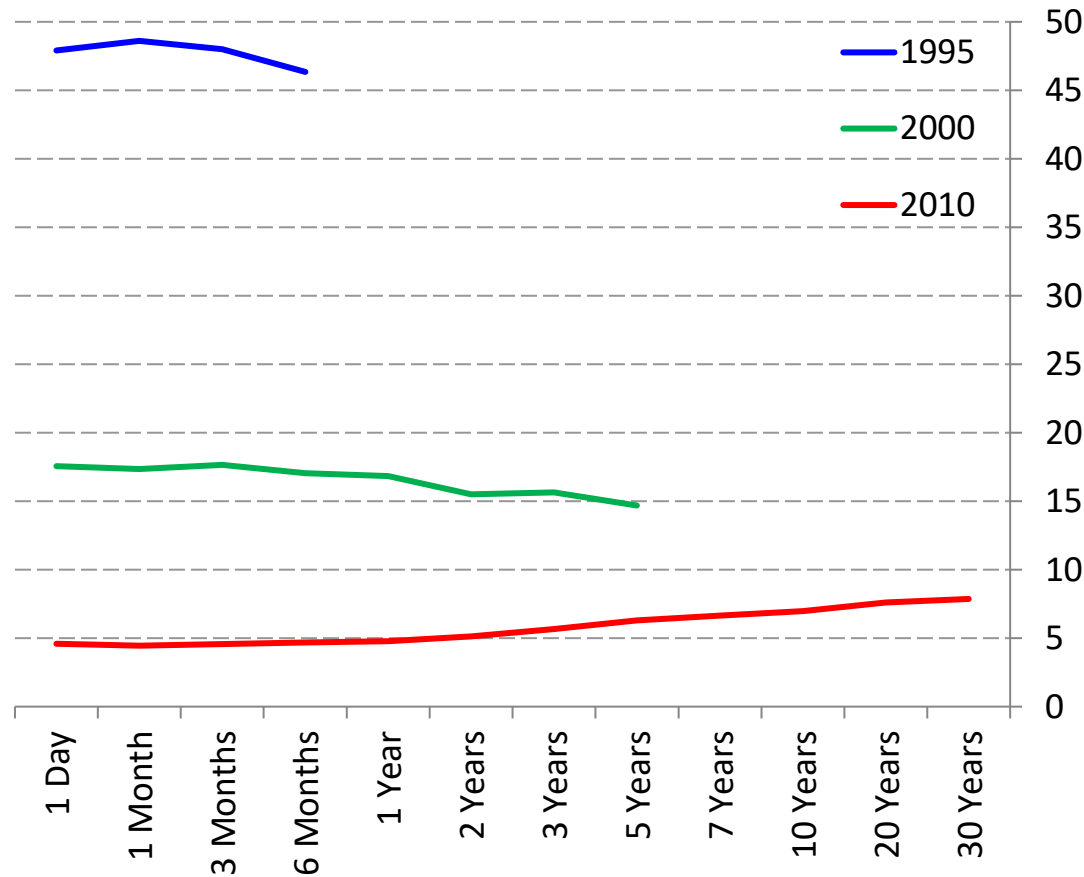
# Central bank autonomy together with a price-stability mandate has underpinned Mexico's transition to low and stable inflation



Source: INEGI.

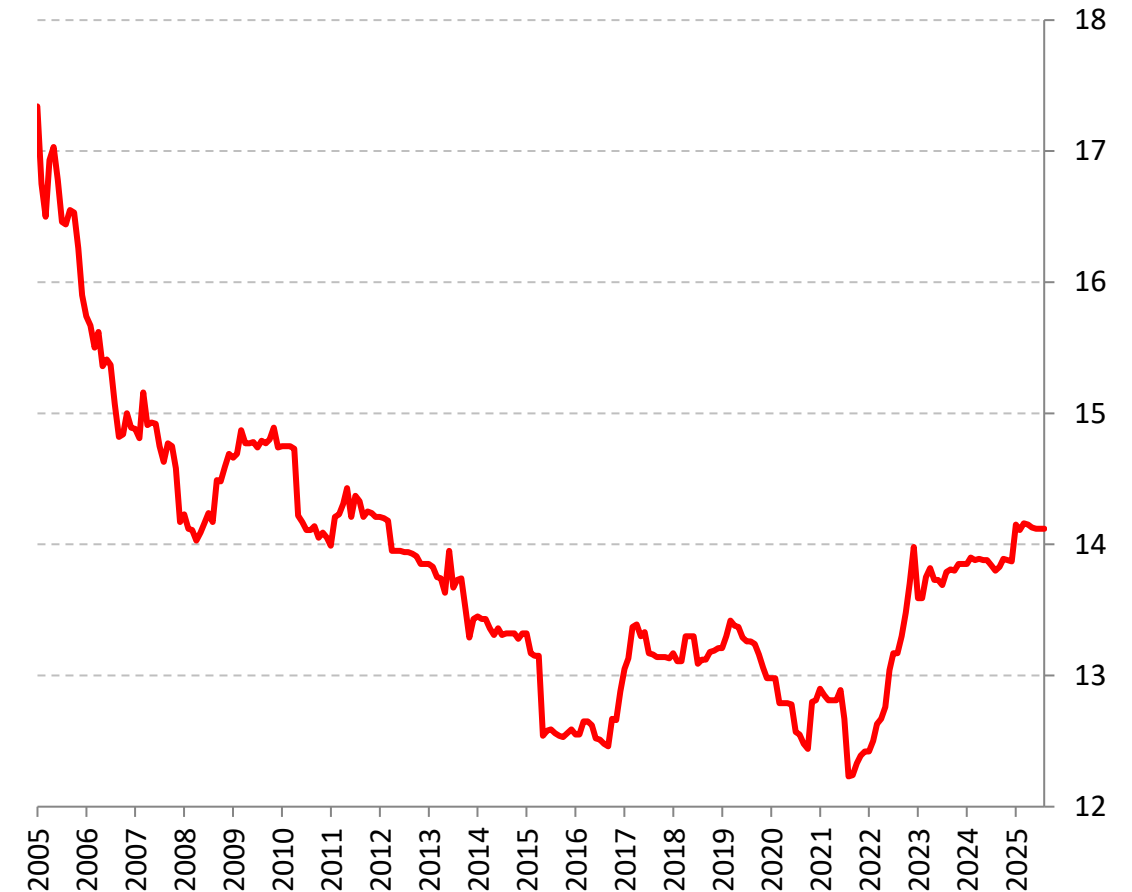
# A low-inflation environment strengthened Mexico's financial system, supporting long-term instruments and lower credit costs

Yield Curve  
(percent)



Source: Proveedor Integral de Precios (PiP).

Annual Cost of Mortgage Credit in Mexico  
(percent)

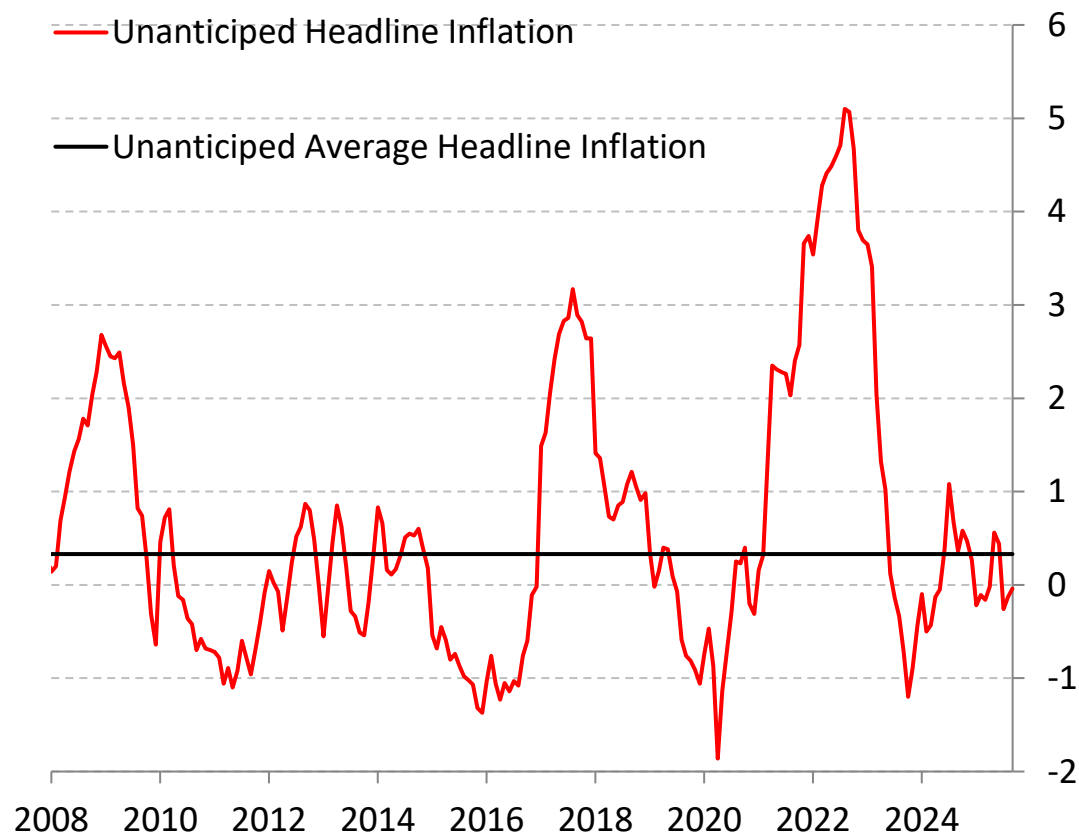


Note: This Indicator that summarizes the total annual cost of the loan. It includes the costs associated with: interest rate, fees, discounts, mandatory insurance, and other financial service charges. It covers banks and non-bank financial institutions (Sofoles).

Source: Banco de México

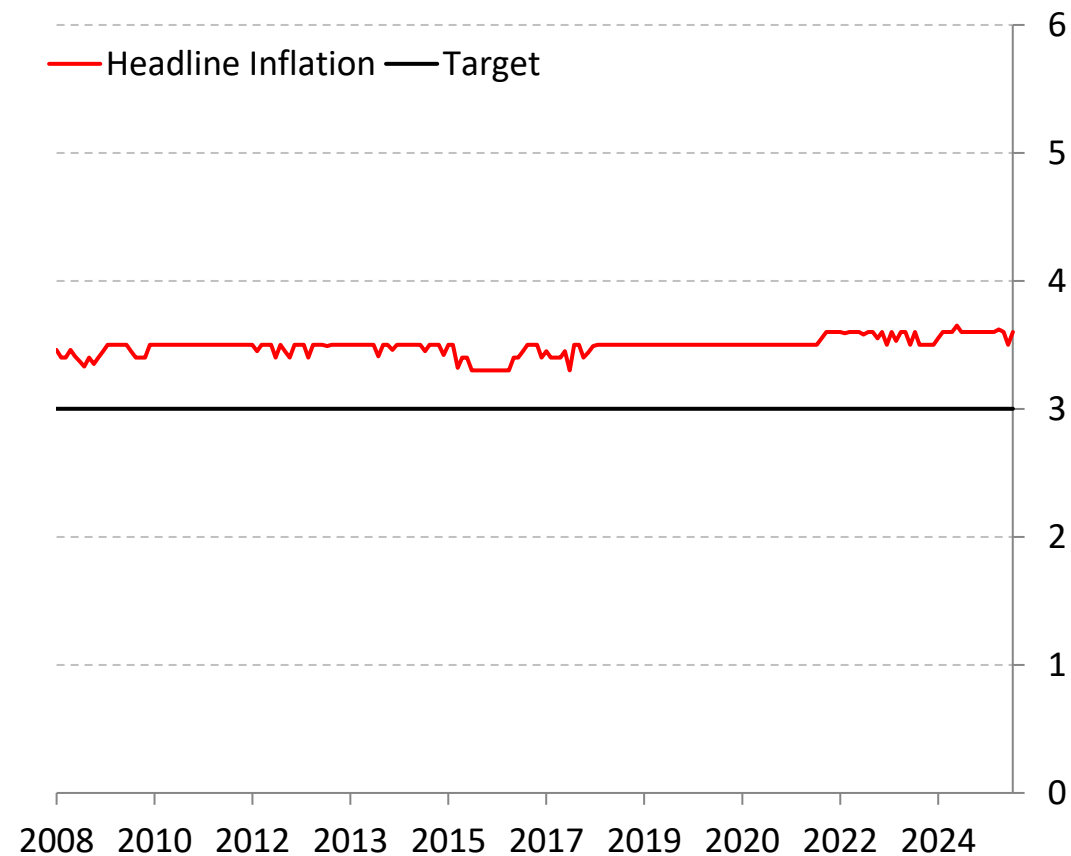
# Stable and well-anchored inflation expectations

Unanticipated Inflation  
(percent)



Source: Banco de México

Median of Inflation Expectations  
for the Next 5–8 Years  
(percent)



Source: Banco de México

# Central Bank Autonomy

- 1** *Is Central Bank autonomy essential for maintaining price stability?*
- 2** *Does central bank independence and stable inflation ensure a more dynamic economy?*

# Central Bank Autonomy

## 1 *Is Central Bank autonomy essential for maintaining price stability?*

- *Under fiscal discipline, the 1950s–60s saw price stability even without central bank autonomy.*
- *The historian Eduardo Turrent called this period “charismatic autonomy.”*
- *Lack of institutional safeguards led to fiscal dominance in the 1970s.*
- *This experience showed that autonomy is essential for price stability.*

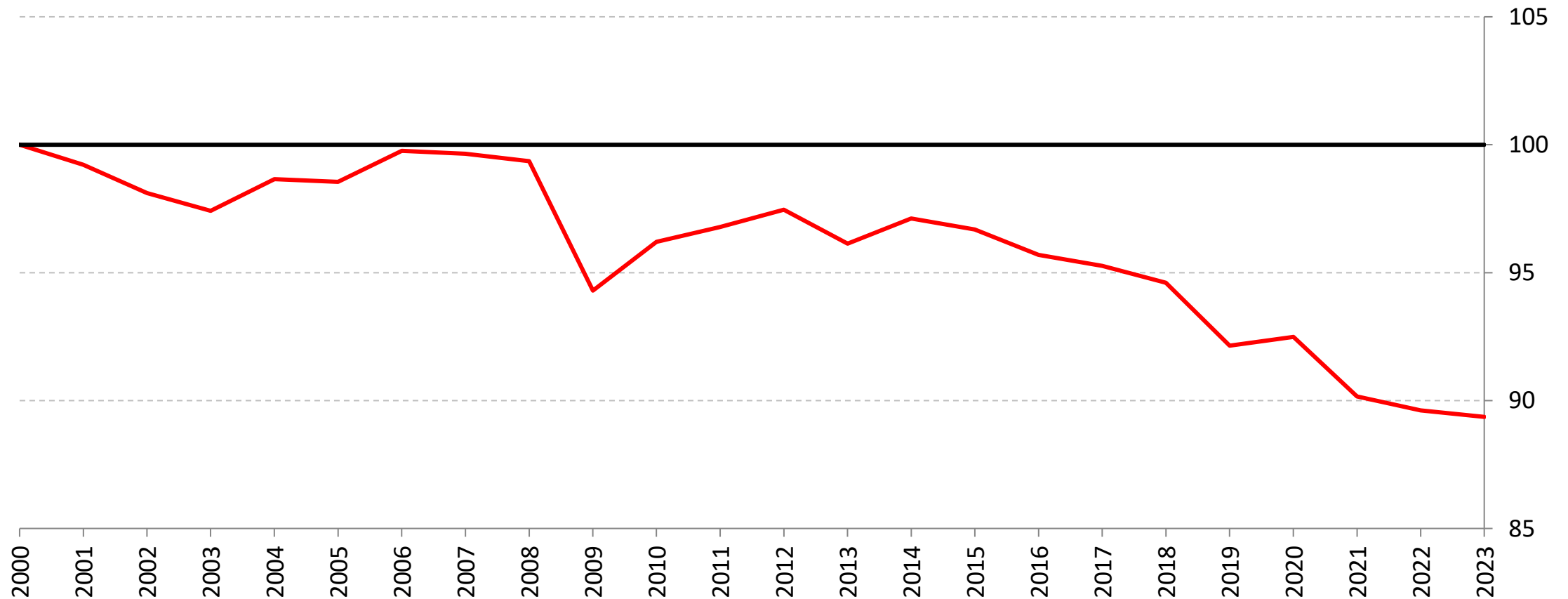
# Central Bank Autonomy

**2** *Does central bank independence and stable inflation ensure a more dynamic economy?*

- *Economic performance has been weak for the past two decades.*
- *Strengthening productivity is key to improving the economy's capacity.*
- *Price stability is a necessary but not sufficient condition for a dynamic and resilient economy.*

# Slower growth has coincided with a fall in productivity

**Labor Productivity**  
(Index 1995=100)



Note: Labour productivity is represented by value added per worker. Specifically, the series for each country was constructed by summing the value added per worker in the primary, secondary, and tertiary sectors.

Source: OECD.

# Boosting productivity is essential to improve economic activity and safeguard a stable inflation environment

- *Higher productivity helps business to absorb cost pressures (supply shocks) without having to increase prices.*
- *Productivity growth increases potential output, enabling stronger performance without generating demand pressures.*