The Economic Club of New York

The Honorable Agustin Carstens

Governor, Bank of Mexico

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Introduction

Roger Ferguson: Welcome and good morning to everyone. Good morning. I'm Roger Ferguson. I am the chair of the Economic Club of New York and I'm also the president and CEO of TIAA-CREF, a Fortune 100 financial services company. As is the practice at our breakfasts we will hear first from our speaker and then take questions from our guests and members. And our plan and intention is that we'll wrap up promptly by 9:00 a.m. Please note that although some of our breakfasts are off the record we have invited members of the press to this one so this is distinctly on the record. Now to introduce our guest of honor this morning, I'll call on the club vice-chairman, Bill Dudley, president and CEO of the New York Federal Reserve Bank. Bill.

William Dudley: So it's with great pleasure that I have the opportunity to introduce Agustin Carstens who is the Governor of the Banco de Mexico since January 1, 2010. He's had a very distinguished career prior to that – Secretary of Finance for Mexico, Deputy Managing Director of the IMF. But in addition to all his work in Mexico he's also incredibly engaged internationally. And I would say he's both one of the most respected central bankers in the world but also one of the most popular central bankers in the world, and that's a real challenge to be able to accomplish both. In the Bureau...Bank for International Settlements he holds some very important positions that probably are a little bit obscure for people from the outside to understand. He chairs what's called the Economic Consultative Council which is really the steering group for all the policy decisions and committees that the BIS runs. He also chairs the

Global Economy Meeting which actually makes all the decisions with respect to policy and he's a member of the Board of Directors. The fact that Agustin was picked to head the ECC I think is a real honor and it just shows you how much central bankers around the world hold him in such high regard. In addition, he has other international responsibilities as well, just to make sure he stays busy. On the Financial Stability Board he chairs the Standing Committee on the Assessment of Vulnerabilities of which I am a member. So he's trying to always look over the horizon and anticipate not just where we are today but what difficulties we might encounter in the future. So with great honor, Agustin.

The Honorable Agustin Carstens

Well, good morning. It's really a pleasure and privilege to have the opportunity to address such a distinguished audience in this venerable for that I know is over 100 years old. I want to thank Roger Ferguson for having invited me to be here today and also I thank Bill very much for his kind words of introduction.

The topic I would like to develop relates to the challenges that emerging market economies are facing today and in the near future, and at the same time I will attempt to delineate a path on how should they respond and move forward. At the outset I would like to recognize that there is a very substantial heterogeneity among emerging market economies, and by doing this type of grouping I run the risk of making sweeping generalizations that may be unfair to some countries.

At the same time it is undeniable that the emerging market economies, Mexico included, face common challenges derived from our participation and interaction in the global economy. This, in fact, is recognized by financial markets, which oftentimes consider emerging market economies assets as an asset class by itself, opening the possibility of contagion among countries. Let me just, I have here a clock ticking that...now it is blinking...it distracts me, sorry about that.

Allow me first to go back a few years to provide appropriate background. It is fair to say that in 2007 - 2008, when the global financial crisis erupted, emerging market economies were by and large well prepared. After many countries in this grouping suffered sequential crises in the 70s, 80s, and 90s, with huge economic, social, and political costs, we learned important lessons. These led to the adoption of key policy actions, of which I would like to highlight the following: First, establishment of flexible exchange rate regimes; the enhancement of the degree of autonomy of central banks with primary mandate of price stability. These led to a wide adoption of inflation targeting and probably more important for a number of countries, to the end of fiscal dominance; consciousness about the relevance of fiscal discipline and the preservation of public debt sustainability; deeper trade liberalization; keeping up to speed in financial sector supervision and regulation which has produced well capitalized banking systems.

The result of these behaviors was that most emerging market economies did not have any major economic imbalances in 2008. Previous to the global financial crisis, emerging markets were not

in the radar screen of vulnerable economies. In support of this claim, and let me, this is more anecdotal evidence, let me say that in October 2006, when I left the IMF to become Mexico's Finance Minister, the main concern at the institution was that the number under IMF programs had shrunk to an all-time low, generating concerns about the budgetary sustainability of the IMF.

Then September 2008 arrived with the bankruptcy of Lehman Brothers, among other systemic financial institutions. The jolt to the world economy was immediately felt through exacerbated financial volatility and a sudden collapse in world trade and economic growth. But the emerging market economies recovered very quickly, as trade and growth bounced back in early 2009, with an almost generalized recognition of financial resiliency. Access to international financial markets was reinstated and no lasting consequences in local markets were apparent. Given the prevailing situation then in advanced economies, talk started about emerging market economies decoupling from advanced economies. In this context, many emerging market economies jumped into the bandwagon of trying to defeat the world's business cycle by implementing counter-cyclical fiscal and monetary policies – Mexico did not – as advocated by fora like the G-20 and the IMFC. The consensus was that it was the turn of emerging market economies to become, at least in the foreseeable future, the main engine of growth in the world economy. My sense is that this was a premature conclusion.

Better growth and stability prospects in emerging markets, combined with the understandable adoption of unconventional monetary policies in the main advanced economies, triggered

massive capital inflows into emerging markets. This phenomena was interpreted by many authorities as a ratification of the perceived economic strength of emerging markets. For a while, those flows also reinforced the acceleration of growth in emerging markets. In addition, China's double digit growth, among other factors, provoked a significant spike in commodity prices, benefitting mostly emerging market economies. Taking all these elements into account, the perception for a while was that nothing could go wrong with emerging market economies.

But under the surface, problems were brewing. Massive capital inflows into emerging markets persisted, fed primarily by carry trades explained supposedly by ex-ante uncovered interest rate arbitrage opportunities. Needless to say, this has generated asset mispricing in many emerging markets, including excessive real exchange rates appreciations, and logically has opened the door for sudden capital flow reversals. In addition, the quick recovery in emerging markets post-2008, the ample liquidity and opportunities for leverage, and the positive terms of trade shocks that were not taken advantage of to strengthen macro-fundamentals, induced some countries to believe that they had some degrees of freedom in macro-policy management that they really did not have.

Almost a year ago, the global financial cycle was more clearly transmitted to emerging markets, probably due to the fact that the process of policy normalization in key advanced economies, markedly in the US, started. The beginning of the end of the era of low interest rates and ample liquidity, together with the correction in commodity prices that has followed the economic

slowdown in China, has invited a reevaluation in emerging market economies' prospects. As a result, vulnerabilities in economic fundamentals in several emerging market economies have been exposed, in particular in those with high levels of public and private leverage, which in turn have produced relatively high fiscal and current account deficits. Tighter financial conditions, together with the terms of trade corrections and the lasting real effects of prolonged and excessive currency appreciation, have been reflected in a widespread slowdown in emerging market economies' economic growth.

To be sure, to have advanced economies, which represent approximately 50 percent of world's GDP, growing below potential, has not helped emerging market economies' growth either. So, with the benefit of hindsight, my estimation is that the hypothesis of "emerging market economies decoupling" was more a mirage than reality.

From a financial stability point of view, given these underlying conditions, the main risk for emerging markets is to be confronted with sudden massive capital reversals, which so far have not happened. Incipient reversals, yes, but not massive. To address this issue, it is useful to try to identify which could be the triggers of perverse market reactions. There could be both domestic and external triggers. On the domestic side: poor macroeconomic policy management, in particular if the objective is to artificially stimulate economic growth; and concerns related to growing internal and external imbalances; for the latter not only the current account matters, but also the magnitude and composition of gross asset flows.

In turn, as external triggers we could have at least four: abrupt changes in monetary policy in advanced economies; an interruption in the ongoing strengthening in the European Union; contagion, given the interconnection in financial markets and the possibility of sudden re-balancing of investors' portfolios; and geopolitical risks.

Therefore, from a political economy point of view, taking a perspective that goes beyond the domain of central banks, I would say that the main challenge for emerging market economies boils down to how to stimulate growth without compromising financial stability, facing at the same time an external environment plagued with uncertainties. The question then is how to move forward?

One option would be to try to engineer some form of international coordinated policy response, bringing on board both emerging market economies and advanced economies. But at this stage, this option does not seem to be feasible. As the late Anna Schwartz used to say, and I quote her: "international policy coordination is a fair weather phenomena." Right now we don't have "fair weather," but I'm not referring to New York City. Since 2008 we have had some policy coordination, mostly among central banks and financial sector authorities, but primarily to tackle specific vulnerabilities in global financial markets. The bottom line is that emerging market economies should take policies in advanced economies as given. The governments of these economies have to deal with their own problems, which are not negligible. If they succeed, the

world will be better off.

So emerging market economies have to find their own way out. In my mind, a three-pillar approach should be considered.

First Pillar. Strong macro-fundamentals and policy settings are of the essence. Basically there is no room for poor fundamentals. In particular, it is very important for emerging market economies to limit financial needs to what is feasible under stress scenarios. This calls for moderate fiscal policies and to use aggregate demand management to avoid large current account deficits. Monetary policy should concentrate in keeping inflation under control, since this is a prerequisite for the flexible exchange rate to be able to perform as a shock absorber. The domestic financial markets should be monitored with a hawk-eye. Early adoption of the enhanced regulatory regime produced under the auspices of the FSB and the Basel Committee should be pursued. On macro-prudential policies, they might work under specific circumstances, but they are not substitutes for core policy actions.

Second Pillar. External sector resilience under stress scenarios should be a policy objective. This is very important to avoid capital re-allocations resulting in bad equilibria in financial markets. So to start with a strong balance of payments is needed. Flexibility in interest and exchange rates, anchored by strong fundamentals, should be part of the adjustment process. But, given the sheer size of capital inflows to emerging markets so far, this might not be sufficient.

So to count with large international reserves and other forms of backstops, like the IMF's Flexible Credit Line, is highly advisable. Also, the public and private sectors should pursue proactive debt management strategies, avoiding bunching of maturities, lengthening durations, and keeping an eye on foreign exchange rate mismatches.

Third Pillar. Promote economic growth by making the economy more competitive, increasing total factor productivity and thus potential GDP growth. This takes us down the road of structural reforms, which have huge potential in emerging market economies. This is the hard way to achieve sustainable GDP growth, but is the only reliable one that is left.

So in summary, the first and second pillars are meant to guarantee financial stability, not necessarily inhibiting economic growth. The real lever for promoting growth lies in the third pillar. As the saying goes, plan for the worst, hope for the best.

Let me conclude by saying that I am an optimist, even though my remarks might not necessarily project that. As you know, we central bankers, by design, are overly cautious, and we are worriers. All things considered, emerging market economies have sailed through the global financial crisis relatively well, notwithstanding the bumpiness in the ride. Required policy responses have been implemented on a timely basis in most cases, and the underlying fundamentals are still strong.

With regard to my own country, Mexico, I can say that we have in place a plan that fully complies with the three pillar approach I just presented to you. Macro-fundamentals are in good shape, we have a strong external position, even under stress scenarios, and unprecedented structural reforms are taking place.

All this, hopefully with stronger economic growth in the US – our main trading partner – should allow us to preserve financial stability even under turbulent times, and increase gradually potential GDP growth to reach a level close to 5 percent at the end of President Pena Nieto's administration. Thank you very much for your attention.

QUESTION AND ANSWER PERIOD

ROGER FERGUSON: Agustin, thank you very much for those remarks, very insightful obviously as would be expected for a person of your leadership role. It is now time to open the floor for any questions. We have two individuals with mikes so please raise your hand, wait for a mike, introduce yourself, and then ask your question.

DAVID MALPASS: Thank you very much, Mr. Secretary, very interesting.

THE HONORABLE AGUSTIN CARSTENS: Governor...Governor...

DAVID MALPASS: Governor...Could you describe the tax reform plans in terms of your competitiveness point? How will Mexico become more competitive from a tax standpoint? Thank you.

THE HONORABLE AGUSTIN CARSTENS: Well, now I understand why you called me Secretary. I'm not Secretary any longer. And central banker, I was glad when I left the position of Minister, not to have to face tax questions. But anyway, out of respect to you, David, I will give it a shot. You know one important thing to, a starting point in the case of Mexico is that my country, remember that President George W. Bush used to say we Americans are addicted to oil, well, we Mexicans are even more addicted. And that is reflected in the fact that over 30 percent of public sector income is oil-related. So Mexico's tax burden is one of the lowest in the continent. And I think the only one we beat in terms of low tax burden is either Guatemala or Honduras, but it's one or the other. Haiti, for example, has a higher tax burden than we have. Of course, if you see the figures today we are in good shape. We have kept a fiscal discipline. Right now we have a deficit in place but we have a fiscal responsibility law that calls for the deficit to converge to zero in 2017. And that brings the broadest definition of public debt to levels below 40 percent and afterwards shrinking. So I mean we recently had a tax reform. It increased a little bit corporate income tax. It established a dividend tax, but it increased the value-added tax. So I would say that if we compare to other economies, Mexico is still a very competitive country. So I would say that we receive more benefit from having, I would say, a forward-looking fiscal policy for it not to deteriorate the situation. As I say in my speech, at this

stage what is of the essence is not to have a situation where you depend on financing and I think to have a clear path already legislated to converge to a balanced budget in 2017 is very good. And I think it should not be a restriction for growth of import(?) investment. I mean if you go right now to Mexico it has passed only two months after the start of the tax increase and so people are mad. I'm a Catholic. There is no reason for me to hide that. And I just want to tell you a story. When I was Minister of Finance I did two tax reforms and I was lined to get communion and the lady that was in front of me told the priest don't give communion to this guy because he's an evil person. So, you know, you can imagine what the reactions of people are when you increase taxes.

JEAN ERGAS: Mr. Governor, thank you for an outstanding presentation. I'm Jean Ergas. I teach economics at NYU. I also work in asset management. I have one question. You mentioned trade recovering, but I think one of the disappointments of this recovery, as much as you can call it that, has been that in fact the expansion of trade in relation to GDP has been relatively slow. I'm very involved with people in the shipping industry and they spend their time weeping because they bought all these boats thinking they were going to carry all these goods, and now these boats are half empty. So I was just wondering, are we looking at a cyclical factor? Are we looking at a structural factor in terms of trade? And are we actually going to be seeing what many rumor here which is maybe not on-shoring, but near-shoring of production and what this could mean for the emerging markets which have hitherto thrived on extended supply chains?

THE HONORABLE AGUSTIN CARSTENS: Well, thank you, that's a very good question. You know what I was referring mostly was that in 2008 if you see a graph of world economic growth and trade, the volume of trade, they both collapsed and went below, to negative rates, very, very fast. And then they both bounced back. And it is fair to say that trade has stabilized at levels below the ones that prevailed before 2008. In a way pretty much as world GDP. So there is a very close correlation between these figures and also world, or emerging market industrial production. So I mean I think, I also mentioned in my presentation that, you know, having 50 percent of world GDP underperforming which is advanced economies, still I think with a quite high output cap, certainly is a good reason to explain relatively slow trade. And not only now we're in a circumstance where emerging market economies are trying to grow with the help of exports, but also some major advanced economies are doing the same. Now I can mention Japan. I can mention many very ____ countries in Europe. So my estimation is that as time moves forward I think we will get stronger economic growth gradually and also more trade. And the issue of where production will be located, I mean I certainly think that it is a real issue. And that's why when I say countries should go for the hard way to increase growth, it's precisely to make them more competitive and not only to be able to engineer internal growth but also to be competitive in the world economy. For example, for Mexico, with the US having done such an important revolution in the energy sector, it is of the essence that also we become competitive in the energy sector. And we have the natural resources there. So I think one of the major reforms for us to improve our competitiveness and our potential GDP growth is to open up the energy

sector and that's precisely what we are doing. So I think that the countries have to be on, I mean always have to be ready to enhance competitiveness because, you know, now we have to compete against Japan. Before it was only China, now it's also Japan, now it's also Spain, it's Greece, you name it. So it has become a tougher market out there.

BILL RHODES: First of all, Agustin, thank you very much for being with us today. Bill Rhodes. When you and I met in your office about five weeks ago in Mexico City, just following up on the last question, based on the implementation of reforms like the energy reform and the increased growth in the United States, presumed increased growth here, you're optimistic that Mexico could reach three to four percent growth. Has anything changed in the sense of the figures you've seen in Mexico over the past few months or anything else that's happening in the world today that would change that view?

THE HONORABLE AGUSTIN CARSTENS: Well, we have had a slower than expected growth in the first quarter. But I think to a large extent it's also correlated with slower growth in the US and a lot of it is because also of the weather, talking about weather. And I mean it's very clear if you see for example the figures of manufacturing production, the correlation is very, very tight. And yesterday we published the figures of trade for February and we had very important improvement in manufacturing exports. So I think that the start has been slow but some of the issues that held us back in terms of growth last year have been taken care of. They are very specific to Mexico. So I mean I think that we'll gather a more, a stronger dynamic as we move

forward.

BAL DAS: Thank you Roger. Thank you, Governor, for your very, very insightful views. Bal Das from BGDHoldings. Turning to your responsibilities or leadership on the international level, in particular your chairmanship on the Committee for the Assessment of Vulnerabilities, I would be interested in your views on how vulnerable is the Eurozone area to deflationary pressures? Thank you.

THE HONORABLE AGUSTIN CARSTENS: Well, that's a tricky question. First of all, coming from an emerging market economy, and please don't interpret that I'm calling Europe an emerging market, but you know, with an open economy, the adjustment of the real exchange rate is very important. When you have a flexible exchange rate and a flexible nominal exchange rate, the adjustment takes place when you face hard times by a depreciation of the nominal exchange rate. But when you have a fixed exchange rate as they have, as a matter of fact they have the ultimate fix in many countries, which pretty much to abandon their own national currency and have only one currency that its value has to reflect what is appropriate for the whole region, not for specific, specific countries. But they still need to grow real exchange rate depreciation. So if you don't have the nominal exchange rate, what has to adjust is the price, the price level. And basically what needs to happen is that the non-tradeable goods, basically labor and so on, their price has to go down. And so I mean there are important forces in some European economies that will pull prices down. At the same time it's also compatible, I think, with the relatively

large output cap that is still there in many countries. So I mean I think that we have to keep an eye on it. Certainly central banks as they have, I think they have a good understanding of all these processes. And, you know, if the story I just told about Europe is not applicable and there are other burdens on the economy that you might, that you might improve by monetary policy to prevent deflation, I think you should use those instruments and I think that's what has happened here in the US and in other countries. So I mean it's a sign of the realities that we are living. I mean pretty much now all, Japan, the UK, the US, Europe, have inflation under target. For me in some cases it's part of the adjustment. In others it's part of the reflection that the recovery of the crisis is still under way and there are still very large output caps.

Thank you Governor Carstens. I'm grateful for your leadership during the ongoing financial crisis and I have a very local question. Can you please compare the regulatory burden for foreign banks operating in New York City with the regulatory burden of foreign banks operating in Mexico City? And do you see any opportunities for reform on either side?

THE HONORABLE AGUSTIN CARSTENS: Well, one thing that I don't know if you are aware, but 70 percent of the banking system in Mexico is foreign-owned. They are subsidiaries. So, you know, we have been keeping up to speed in terms of adopting the reforms that have come out of the Basel process, of the FSB, and so on. By conviction we believe that they are very important. I mean you have to remember in '94, we had a banking crisis that cost us 18 percent of GDP. So we're still paying for it. So for us I think it's very important to prevent that

source of instability. So I don't think there are regulatory arbitrage opportunities. I mean there are some home banks in Mexico and they can say if they are arbitraging. Probably not to me, but to you they might tell. But I don't believe that that's the case because I think for conviction we have tried to adopt pretty much, at least in spirit, the main international standard. There might be some specific issues here related to, you know, the __ rule, and other things that probably we will not go down that path. But with respect to the very fundamental aspects of the international reforms, as a matter of fact, they were already incorporated into the law and they're already being applied in Mexico.

Thank you very much, Governor, for your remarks this morning. I just want to make a question and go back to the initial point on productivity. What do you think, in your point of view, has kept productivity at bay in Mexico? Why hasn't productivity really been a factor behind the competitiveness of the country? And a followup to the question would be how would the reforms and particularly the energy reform, the investments that could come to the country, change that in terms of productivity?

THE HONORABLE AGUSTIN CARSTENS: Well, precisely the main reason total factor productivity hasn't been growing in Mexico is because we have been avoiding these reforms. I mean I think one of the things is that there are low lying apples in many emerging markets to be reaped. But, you know I mean let me, I mean I think it's very easy to understand, for example, the power of some of the reforms in Mexico. Imagine that in the US all the energy sector, all of

it, from the gas station to deepwater drilling, is in the hands of the government and it's subject to budgetary appropriations. It's subject to fiscal discipline, to auditing, and so on and so forth. Add to that, that all the electricity sector is also in the hands of the government. So what do you get? Do you get massive under-investment because as the economy grows there is always other sectors that receive more priority and at the same time from an administrative point of view is just very, very difficult to have efficient energy production. As a matter of fact, one of the issues why last year manufacturing production didn't grow so much in Mexico is for three months we had scarcity of gas in an important region in Mexico. And we're sitting on a lot of gas. So just to open that up for that sector to catch on, on the investment, the development that is needed, also just, I mean imagine that you have to run from a gas station permit to deepwater drilling, I mean Pemex is the most overwhelmed company probably in the world. So I mean we will get a lot of efficiencies. I mean in a way I think Pemex has done great even with the restrictions that it faced. So I mean that is just one example. In telecom, there is also very important, there are also very important benefits to be obtained to having more competition. In terms of, let me give you another interesting piece of information. If you take the CPI and you take the basket of different deciles, if you take the basket of the lower decile, between 30 and 40 percent of those goods and services are not in a competitive market. That's huge. I mean you're talking tortillas, you're talking bread, you're talking cement, you're talking telecommunication. So the benefits of having more competition are very important. From the efficiency point of view it also will help us hopefully bring down inflation, I mean probably the price level first. I mean inflation is not, it's more a relative price change but that certainly would help us. And it also will help income

distribution which I also think will be very important for Mexico. So I mean I think that once you look into the reality of Mexico and what the reforms are trying to achieve you can, very easily you will find out that the potential is huge.

QUESTION: Could you offer your views of the specific strengths and weaknesses from Mexico's perspective of the NAFTA?

THE HONORABLE AGUSTIN CARSTENS: Well, I think NAFTA has been extremely important for Mexico because it was the culmination of many efforts to open up the Mexican economy to competition. I mean Mexico comes from the tradition of the 50s, so you know, of import substitution and all those things which I think were very, very, very detrimental policies. And so I mean that forced at least the manufacturing sector and some services to be exposed to world competition, and they responded very well. And for example when China, when China entered into the world economy at the beginning of this century, that generated an impact on Mexico's exports. But we bounced back pretty much quickly because, you know, they were already exposed to competition so it took them some time but the way to handle competition was not new for many sectors. So I mean I think it has been tremendously important for my country.

ROGER FERGUSON: There's a question towards the back there.

(INAUDIBLE)...It seems that Mexico fundamentally is in a far better position now than some of

its larger, more prominent emerging markets.

ROGER FERGUSON: Why don't you hold the mike...the mike is on, just hold it.

Oh, sorry, okay. It appears as if Mexico is in far better fundamental shape than many of its more prominent emerging counterparts at the moment. However, rising interest rates has never been something that the emerging markets have ever been able to handle decently. In light of yesterday, there have been several Fed officials now talking about what they think the normalized short-term interest rate will be in this country over the next year or two and certain officials are saying as high as four, four and a half percent. So my question to you is, how would Mexico fare under that? Are you concerned about that first of all, and how would Mexico fare if in fact US interest rates would rise by 400 basis points over the next two years?

THE HONORABLE AGUSTIN CARSTENS: Well, a lot of my speech had to do with that. So the answers are there. I mean I think, again as I said, I think you gave the precedent of emerging markets not faring well in periods of rapid increases in interest rates in the US. And I'm not saying that will happen, and you know two periods come into my mind, '87 and '94. If you compare the fundamentals of Mexico now with the fundamentals there, it is unimaginable the difference. You know in '94 we ran out of reserves. In '94 the Mexican government could not borrow for longer than eight days at interest rates not lower than 100 percent you know. Last week Mexico placed a 100-year bond at the rates of around 5 percent. Our duration of our debt,

public debt, is higher than the duration of the US debt. So I mean I think those factors need to be taken into account. As I say, we need to be watchful. It will be a turbulent ride, but I think basically, and that's the message of my speech, is that we will have to be prepared. And if you do the job, I think you will fare well. Flexibility in the exchange rate, flexibility in interest rate is important. You need to anchor those variables with strong fundamentals on the fiscal side, on the financial sector side. And you have to bring in all the help you can and that's why we have been applying for the Flexible Credit Line of the Fund here with John Lipsky, we signed our first commitment and we have brought the financial viability to the Fund too. But, you know, I think the main value of an instrument like the FCL is not so much the money that it offers you but is the fact that it's a very, very valuable commitment technology because if you don't keep the fundamentals, the Fund will say, oh, well, now you don't have access to that money. And that's a scenario you don't want to face. So I think that at least speaking for Mexico we have been working to be prepared and what we expect, you know, is that I mean obviously the speeds are different but, yes, we will have higher world interest rates as the world economy recovers and as we move to normalization. But what we want through all the structure reforms and so on is to compress Mexico's spreads. And I think that, that at the end should give us a good way to handle the debt prospects forward.

ROGER FERGUSON: There's one question here towards the middle. Please wait for the mike.

BENITO BERBER: Benito Berber, Nomura Securities. Governor, obviously the Fed policy, as mentioned before, it's very important for EM, but particularly for Mexico. And in the press releases when you give guidance about monetary policy in Mexico, you've linked monetary policy in Mexico to the one in the US. Now given the shocks in the construction sector and the gas shortages last year, it's not inconceivable to think that there will be an output cap in Mexico when the US starts to increase the policy rate. So how to think about monetary policy in Mexico with an output cap and at the same time the US rise in rates? Thank you.

THE HONORABLE AGUSTIN CARSTENS: Well, again, I mean you know very well that our mandate is inflation. So what we will have to concentrate is, I mean the way to think as you very well know, to read what we say, you have to understand what is the mandate we are pursuing. And we have a very clear mandate which is to keep inflation low and under control. Now what are the factors that can affect the performance of inflation? Well, I think that the two that were highlighted in the last communique, one was the output cap that Mexico has because we have to mind that, and not so much because we want to promote explicitly growth, but because we are at the point where for some time in the future we don't have to worry that much about aggregate demand pressuring prices. And then, you know, for the behavior of the price level in emerging markets, even though the pass-through in Mexico from the exchange rate to prices is very low, the exchange rate also matters. So why do we look at what the global monetary conditions are, especially in the US? Well, because it could affect the exchange rate. So more than anything, what we are saying is that when we make monetary policy decisions, those are variables that we

are watching and that given, I don't know how this will evolve, that might modify our monetary policy decision. So that's basically what we meant.

ROGER FERGUSON: Thank you very much. Please join me in thanking Agustin Carstens. Let me thank all of you for coming and let me remind you that our next event will be lunch on April 16 when we will be hosting Janet Yellen, the chair of the Federal Reserve System. Thank you very much.