

## Banxico has a new Governor

- **President Enrique Peña-Nieto appointed Alejandro Diaz de Leon as the new Governor of Banxico**
- **Mr. Diaz de Leon will replace Agustin Carstens, who will become General Manager at the Bank for International Settlements (BIS) on December 1**
- **Mr. Diaz de Leon has served as member of Banxico's board since 2017**
- **In our view, Mr. Diaz de Leon has extensive experience as a public servant, academic credentials and the recognition of investors to lead the central bank, enforcing Banxico's mandate to preserve the purchasing power of our currency and ensure the stability of the Mexican financial system**

**Banxico has a new Governor.** Yesterday, President Enrique Peña Nieto appointed Alejandro Díaz de Leon as the Governor of the Bank of Mexico from December 1<sup>st</sup> of 2017 until December 31<sup>st</sup> of 2021, replacing Agustin Carstens who was appointed as General Manager of the Bank of International Settlements (BIS). Alejandro Diaz de Leon is already a member of Banxico's Board.

**High profile official in the public sector.** It is worth mentioning that the successor elected by President Peña Nieto has extensive experience in the public sector, as well as solid professional training. Mr. Diaz de Leon holds a degree in Economics from the *Instituto Tecnológico Autónomo de México* (ITAM) and a Master's degree in Public and Private Administration from the Yale School of Management. Among the articles he has published we highlight "*Fear of floating or fear of inflation? The role of the exchange rate pass-through*" (2003) and "*Monetary policy and interest rates: recent experience in the case of Mexico*" (2001), among others.

Alejandro Diaz de Leon began his professional career in Banxico, where he worked for more than 16 years as Manager of Macro-Financial Analysis, Director of Macroeconomic Analysis, and Director of Economic Studies, among other positions. Mr. Diaz de Leon also served as an Executive Member in PENSIONISSSTE (2007-2011) -public sector employees' pension fund-, being an essential part in the implementation of the reform of the public-sector workers' pensions system. In addition, Mr. Diaz de Leon served as head of the Public Credit Unit within the Ministry of Finance (2011-2015), and as the General Director of Mexico's Eximbank (2015-2016). We highlight that during his tenure as head of the public credit unit, the participation of foreign investors in Mbonos increased from around 43% to 59.5%.

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**We believe that investors will receive the news positively.** As we already mentioned, the career of Diaz de Leon within the Central Bank, as well as the positions in which he has worked in the public sector, place him as the ideal person in charge of the institution, so we think that investors will receive the announcement positively. After the appointment of Diaz de Leon as Governor, there is an open seat at the board of governors, which should be appointed also by Mr. Peña-Nieto shortly.

Regarding this appointment, we believe that the president should consider some candidate from the private sector. Members of the board are usually well-recognized scholars with solid background, experience and recognition from global investors. Such has been the case of Everardo Elizondo Almaguer or Manuel Sanchez Gonzalez, former chief economist at *Bancomer* (now *BBVA Bancomer*). Currently, all members of the board have had a very distinguished career in the public sector as economists, financiers or lawyers, so a member from the private sector could offer a different view on monetary policy, management of international reserves, banking regulation and communication.

**We consider that the appointment of Mr. Diaz de Leon as the new governor drastically reduces the likelihood of an increase in the reference rate in December.** In our view, having a governor at the central bank reduces uncertainty, which pressured the FX so we maintain our call for Banxico remaining on hold for the remainder of the year. Looking ahead, we continue to expect Banxico's next movement to be a rate cut but not until the second half of next year, when the monetary authority could reduce interest rates in two 25bps cuts.

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