

## MEXICO: A double blow to investor confidence

- Last week's developments relating to the Central Bank (Banxico) raise questions about its institutional autonomy just as inflation has risen to its highest rate in 20 years.
- A parallel initiative elevating large infrastructure projects to "national security" status is discretionary and opaque, while it unduly empowers President Andres Manuel Lopez Obrador (AMLO).
- Both issues taken together are a signal of an increasingly adverse and unpredictable horizon as AMLO's pursuit of discretionary powers tests Mexico's increasingly stressed system of checks and balances.

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### Surprises at Banxico

Events of last week put Banxico's institutional autonomy and effectiveness under the spotlight. The situation arose after former finance minister Arturo Herrera revealed that he had been dropped as the nominee for new Banxico governor. Herrera was unveiled in June as the successor to Alejandro Diaz de Leon, whose term is not being renewed when it expires at the end of December. AMLO justified the early announcement of the succession plan as necessary to provide clarity and avoid any market jitters. However, it now emerges that Herrera's nomination was quietly dropped as far back as August, possibly at the behest of Finance Minister Rogelio Ramirez de la O.

Markets reacted negatively to this news and to the uncertainty over who would be the next governor, prompting AMLO to announce his new nomination: the low-profile deputy finance minister Victoria Rodriguez Ceja, who has no known monetary policy experience. With the MXN under pressure even after Rodriguez's unveiling, she was then obliged to publicly proclaim her intention to preserve Banxico's institutional autonomy, continue the bank's inflation-targeting policy, and manage reserves responsibly.

Be that as it may, the fact is that the new nominee is seen as lacking the experience and authority to stand up to AMLO. Even as inflation crept above 7% in the first half of November and as the US Fed is expected to tighten monetary policy, AMLO may push for a more dovish approach to rate-setting given the deteriorating economic situation (Q3 growth has now been confirmed as worse than originally thought, and growth this year could well dip below 6%). AMLO may also have his sights set on any future Banxico operating surplus after a tussle over the issue earlier this year. Despite Rodriguez's apparent lack of qualifications, a simple Senate majority is all that is needed to confirm her promotion; this could happen as soon as this week.

### Infrastructure

Separately, a decree published on 22 November elevates a host of government infrastructure projects to "public interest" and "national security" status, enabling them to bypass normal regulatory hurdles and obtain expedited provisional

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authorization lasting 12 months, enough time to make legal challenges against the decree redundant. This special regime would benefit AMLO's pet projects including the Dos Bocas refinery, the Felipe Angeles International Airport (AIFA), and the *Tren Maya* rail scheme.

The decree reflects AMLO's frustration with delays to all three projects, his response being to bulldoze community opposition, transparency norms, and legal hurdles in his pursuit of tangible public works as a sign that he can deliver. The CCE business chamber accused AMLO of trying to put his pet projects above the law. Legal challenges have already been announced.

The initiative could also be designed to shield the military – a major contractor, particularly in the AIFA project – from scrutiny after recent corruption allegations. AMLO is heavily reliant on the military in a variety of non-core areas. These include the construction of thousands of new branches of the state-run bank used to disburse cash transfers, as well as roles in the management of ports and customs. The military has largely embraced these new roles (and resources) to judge from a controversial speech by Defense Minister Gen. Luis Cresencio Sandoval on 20 November in which he identified personally with AMLO and his vision of a Fourth Transformation. The speech is just the latest incident to raise concerns that the military has become politicized under AMLO.

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