



MARK HENLEY

People in Economics

The Innovative Central Banker

Andreas Adriano profiles **Agustín Carstens**, finance minister, head of the BIS, and central banker with a start-up mentality

WHEN HE WAS A CHILD, Agustín Carstens' mother would give him the exact bus fare to school and back every morning. One afternoon, he had to walk several kilometers across Mexico City to get home because fares went up during the day. "I asked what happened, and my mother said, 'It's inflation,'" he recounted in an interview. "I was puzzled and thought it would be interesting to understand it better."

Thus germinated the seed for Mexico's leading economist and one of the most successful policymakers of this century. Over a four-decade career, Carstens combined intellectual and academic rigor with pragmatism and political ability in a remarkable series of leadership roles at the International Monetary Fund, Mexico's central bank and finance ministry, and the Bank for International Settlements.

"Agustín has a unique combination of immense curiosity, enormous intellectual power, and a start-up mentality," said Siddharth Tiwari, a former IMF director. He and Carstens have been friends since their days as doctoral students in the 1980s at the University of Chicago. What's even more notable is that Carstens never worked in the private sector and built his career within rigid bureaucracies.

At the IMF, Carstens challenged doctrine by advocating loans to prevent crises, not just fix them. As finance minister, he steered Mexico through the global financial crisis. As central bank governor, he strengthened multilateralism. While general manager of the Bank for International Settlements (BIS), he launched the Innovation Hub, fostering a start-up culture inside the ultradiscreet, almost 100-year-old

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institution. At the same time, he pushed the BIS to go deeper in understanding recent monetary policy developments.

At the end of June, Carstens will finish his term as the head of the Basel, Switzerland-based “bank for central banks,” passing the torch to Spaniard Pablo Hernández de Cos. He will be 67 years old and declined to say what’s next for him.

From baseball to economics

Agustín Guillermo Carstens Carstens was born in Mexico City to an upper-middle-class family of German ancestry. In his youth, his budding interest in economics competed with baseball, as he was a promising pitcher in junior leagues.

Economics won out. Carstens earned admission to the Instituto Tecnológico Autónomo de México (ITAM), the university that traditionally trains Mexico’s elite civil servants. After graduation and a short internship at Mexico’s central bank, the institution offered to send him to the University of Chicago for postgraduate studies. He planned to research the Mexican peso exchange rate market.

That was 1982, the year Mexico devalued the peso three times and nationalized the financial system. Before his departure, Carstens experienced financial turbulence firsthand. Mexico was running out of reserves and was about to impose capital controls, meaning that not even the central bank could be certain of sending him regular payments. Carstens’ boss handed him \$10,000 in cash as a scholarship advance. “It took six months for payments to be normalized,” Carstens said.

Carstens had a busy time in Chicago. He finished his master’s and doctoral degrees in just three years. His thesis advisor was Michael Mussa, who later became IMF chief economist. He also met and married Catherine Mansell, a master’s degree student from Texas who later published a best-selling book on Mexico’s financial system and then wrote fiction under the name C. M. Mayo.

After completing his PhD, Carstens rejoined the central bank as a foreign exchange trader. With the country still in crisis, his job included monitoring exchange rates, trading volumes, and

reserve levels, updating them on a blackboard every half hour. “To keep our governor in the loop, we rigged up a camera in front of this blackboard and put a TV monitor in the governor’s office so that he could see what we were doing in real time, more or less,” Carstens recounted in a 2020 speech.

Carstens was quickly promoted to treasurer, then head of research. That’s where he was when Mexico’s next currency debacle unfolded, the 1994 Tequila Crisis, which required a \$50 billion bailout organized by the US.

It also left unfinished business that Carstens would address seven years later. Fellow ITAM alum Francisco Gil Díaz, President Vicente Fox’s newly named finance minister, invited Carstens to be his deputy in 2001. In that role, Carstens pushed through critical regulations to strengthen banks devastated by the 1994 crisis.

Breaking a stigma

In the meantime, Carstens did his first tour of duty at the IMF, as the board member for Mexico, Spain, and Central America in 1999. Later, after three years as Mexico’s deputy finance minister, he returned to the Fund as one of three deputy managing directors. Among other things, he gave a boost to the IMF’s capacity development operations. “He had a great ability to relate with policymakers as somebody who often had been through the same issues,” said his former advisor Alfred Kammer, now the IMF’s European director.

While overseeing more than 70 countries, Carstens challenged the IMF to get out of its comfort zone of making loans only if borrowing countries accepted fiscal and economic conditions. He advocated no-strings precautionary lending to help countries with strong fundamentals avoid balance of payments crises triggered by external factors.

However, that was “a jump that took a very long time for the institution to buy into,” Carstens said. Even countries were skeptical, as borrowing from the IMF was seen as a signal of economic weakness.

It would take another half decade and a global crisis for the idea to mature. In his next job, it was Carstens who

broke the borrowing stigma. In late 2006, when Felipe Calderón became Mexico’s president, Carstens was the clear choice for finance minister. In that role, he carried out several fiscal reforms and won approval of four federal budgets in a minority government.

“He turned out to be an excellent politician,” said Alejandro Werner, deputy finance minister at the time and one of Carstens’ former students. “He managed to pursue a pretty conservative fiscal policy while maintaining a lot of political cohesion.”

Carstens pushed for new legislation for pensions and banking as well as energy. His biggest challenge was shielding Mexico from the effects of the 2008 global financial crisis. His conservative fiscal stance kept Mexico financially healthy as the crisis hit.

His early work on precautionary lending came to fruition in March 2009, when the IMF rolled out the Flexible Credit Line (FCL). Countries that were prequalified by strong fundamentals—such as Mexico—could get immediate access to funds with no strings attached.

Mexico signed up for the first FCL, worth \$47 billion. “The IMF used to be the emergency room doctor that would rarely give good news,” Carstens wrote in a Mexican newspaper at the time. “After the insistence of Mexico and several countries ... the Fund will take a more active role in preventing balance of payments crises.”

The challenger

In 2010, Carstens became the governor of Mexico’s central bank, a position he leveraged to build his international prestige, by upholding multilateralism and seeking to strengthen the global financial safety net.

Carstens threw his hat in the ring for managing director of the IMF following the exit of France’s Dominique Strauss-Kahn in 2011, running against France’s Christine Lagarde and challenging Europe’s traditional grip on the Fund’s top job. It became the IMF’s most competitive selection process, and, for the first time, the board drew up a short list, with Carstens and Lagarde. “The Fund’s institutional development has lagged behind global developments,” Carstens

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said at the time. Although Lagarde still won easily enough, Carstens had raised his global profile.

The following year, Mexico held the Group of Twenty presidency amid the euro area crisis. Carstens helped mobilize large emerging market economies to put together almost half a trillion dollars in additional resources the IMF could tap.

In 2015, Carstens was named chair of the International Monetary and Financial Committee (IMFC), a powerful steering group comprising ministers and governors from the IMF's largest shareholders. That made him a kind of chairman to Lagarde's role as chief executive.

“The chair's job is to foster consensus and engage committee members in a constructive manner,” said Tiwari, whose team at the Fund produced the meetings' technical documents. Carstens' performance at the IMFC was decisive in generating support in 2017 for him to become the first BIS general manager from an emerging market.

Pragmatic innovator

Initially, Carstens could seem skeptical of technology. In a 2018 speech, he called Bitcoin “a combination of a bubble, a Ponzi scheme, and an environmental disaster.” That perception would soon shift. During a trip to Asia in 2019, Carstens was impressed with Singapore's and Hong Kong SAR's innovative financial ecosystems focusing on retail payments, tokenization, and open finance. It was an opportunity to put his start-up mentality to work.

“Technology travels very fast and affects all central banks at the same time,” Carstens said. “There are econ-

omies of scope and economies of scale in working together. The BIS is here to facilitate collaboration among central banks, and technology lends itself to this cooperative approach.”

Carstens appointed French economist Benoît Cœuré to lead the new Innovation Hub. As a board member of the European Central Bank, Cœuré oversaw payment operations and served as chair of the BIS-supported Committee on Payments and Market Infrastructures. He combined central bank respectability and experience with technology and innovation.

The Hub grew quickly, reaching more than 100 employees and seven centers around the world in five years, mixing macroeconomists with software engineers, blockchain experts, and data scientists. It has conducted about 40 projects to test new technologies, from tokenization to using AI to improve economic analysis.

Some projects are heading toward real-life use. Project Nexus created a prototype platform to interconnect domestic retail payment systems. The governments of India, Malaysia, the Philippines, Singapore, and Thailand are developing it for commercial use by 2027. It will allow 500 million people across the five countries to send money back and forth as easily as Americans use Venmo or Brazilians use Pix.

Project Agorá aims to test new technologies, such as tokenization, within the existing financial system. Over 40 financial institutions and leading central banks—the Federal Reserve Bank of New York, Bank of England, Bank of

Japan, among others—joined it. “The Hub is a transformational project in the central bank universe and will need time to deliver benefits and change culture,” said Cœuré, who left in 2022.

At the same time, Carstens also pushed the BIS to play a larger role in its core field of monetary policy. A 2022 report was among the first to warn about a global shift from low to high inflation. It also raised the question “Are we seeing signs of an end to the post-World War II globalization era?”

In a February speech, Carstens analyzed policy lessons from the past five years' unique geoeconomic developments, including the pandemic, the resurgence of inflation, and Russia's invasion of Ukraine. He argued that central banks initially focused too much on the risk of inflation being too low. He advised central banks to “reduce the reliance on tools that are difficult to adjust. Quantitative easing generated a lot of liquidity and expansion but was very difficult to rein in,” he told F&D. Forward guidance, should also be used more sparsely. “To better transmit a sense of uncertainty, central banks should maybe rely more on stress scenarios.”

While some economists compare today's challenges to the supply-side disruptions caused by oil price increases in the 1970s, Carstens thinks the transformation is deeper. “What we are witnessing today is a structural change in the world economy and in the relationships between countries.” **F&D**

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