

24th BIS Annual Conference, tribute to Agustín Carstens

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Theme – making an impact with technocratic virtue in today's political economy

One important aspect of Agustín Carstens' enormous positive impact throughout his public career was his commitment to public facing communication and accountability. In every role – including notably at the BIS, which was not previously known for its public profile – Agustín took seriously this aspect of making monetary and financial policy for the general welfare. That benefited every institution he was part of and then led.

I think in many ways for the people in this room and the many of us who look up to him, Agustín was the central banker from central casting. He was almost a platonic ideal. As others have mentioned, he combined academic heft, professional ethics, confidence and calm without ego, and awareness of history and politics without being driven by them. These are the attributes we all would aspire to, as economic public servants. But most of all, what I think Agustín exemplified was the ability to combine pragmatism and trustworthiness.

And this is the balance that somehow must be achieved to have sustainable positive policy impact. Sometimes people going into central banking, or having been too long inside central banks, mistake inflexibility for credibility. There is a very profound paper by Drazen and Masson [QJE 1994] titled [Credibility of Policies versus Credibility of Policymakers](#). It is all about the idea that a macroeconomic policymaker should not necessarily pursue the harshest or laxest policy at any given time, even if it seems possibly optimal, because beyond any one policy, you are also creating credibility for your regime, your ongoing work. That is something I think all central bankers are having to confront in this current situation of disinformation and polarization, following the COVID period of inflation.

Within the BIS convened meetings and most central bank conferences and committees, there's basically no question about people's motivations. Everybody wants to do the right thing and there's even some sense of shared values and shared process to want to get to what the right thing is. That is one of the most gratifying things about my experience on the Monetary Policy Committee of the Bank of England, to participate in such a common effort. For everybody who gets to do that, it's almost as satisfying as being at a think tank in terms of working with good motivation.

But more seriously, what is difficult to achieve is to get politicians, the general public, the media, as well as markets to accept the decisions that central bank committees or finance ministries

make are legitimate and well-motivated. Almost nothing is ever strictly Pareto improving, except after a crisis has hit, and nothing is ever perceived as Pareto improving even then. There's always somebody who falsely or not believes that they are being mistreated. So, as I put it 30 years ago, [declarations are not enough](#) [NBER Macroeconomics Annual 1995] to assure support for operationally independent policymaking.

Applied macroeconomists have spent a lot of time on institutions and processes, including central bank independence, exchange rate regimes, and inflation targeting, but that is not sufficient to keep well-intentioned policymaking safe. A society cannot just set it up and forget it. It is sad that my warnings about the limited power of institutional fixes against politics are being demonstrated so amply in my own country at the moment, but I think it's important to recognize that reality.

So, Agustin demonstrated four general lessons over his career about how to handle this political challenge of publicly navigating macroeconomic policymaking. First, policymakers must admit reality upfront with factual backing. In one key theme, Agustin always spoke frankly about the differences between emerging markets and so-called advanced economies, and where those differences were likely to go away. And he was right. This was during times when people either were making political choices about which economies to consider (not just label) advanced or emerging or were being dismissive of economic prospects for emerging markets because it was just too tough to have confidence. This is an example of how you talk about how you think about things can shift the reality – both in terms of what is deemed possible policies and how much space is available to pursue new policies.

Second, have your major policy goals ready and be ready to push them when the opportunity strikes. Do not assume, however, that on your first day in office you can go ahead with a list that you are going to be able to knock off. (This is true notwithstanding Agustin's successful internal action agenda day one at the BIS). It is a question of being ready when the political moment is right, when things are ripe to take hold. We can think about Agustin's leadership at the IMF, pushing over time for there to be facilities for non-reactive access to credit, pre-qualifying instead. This took time before it became reality, but thanks to Agustin it did become opportunity when time was ripe. Of course, we have seen a similar dynamic in Agustin's early championing of the work on CBDCs both at the BIS and among the participating central banks.

Third, speak as plainly and as simply as you can, but no simpler. So, a policymaker can normally speak much more simply in public than they do in these and in similar rooms in the central banking community - but you cannot allow yourself to speak as simply as the worst politicians do. Making that judgment about communications, that discipline of forcing yourself to be clear,

but not allowing yourself to pander, is a key part of the leadership role. I'm proud that in the [2015 Niarchos Lecture at the Peterson Institute](#), as well as in a more recent [on the record conversation we had at PIIE in 2021 about CBDC's](#), Agustín demonstrated exactly what is needed to do that.

Finally, and this goes to something others have mentioned and I think is critically important, monetary policymakers should engage with fiscal authorities in the spirit of sympathy but not assistance. That is an important distinction. For too long central banks felt that they could not give the impression of even cooperating with fiscal authorities, because that would be a sacrifice of credibility. This was particularly true during the euro crisis, [as I argued for voluntary cooperation at the time](#) [Bank of England 2010]. Again, back to credibility of policymakers versus credibility of policies. The point is not to be an adolescent, and say, well, I'm independent, therefore I don't ever have to do what you ask.

That is counterproductive, and Agustín knew that from his days as the Mexican finance minister. There he was, passing four federal budgets in Mexico, in a minority government, without either getting into conflict with the central bank or diminishing its perceived independence, which is extraordinary. But the fact is that being sympathetic as a central banker does not require you to be empathetic. It doesn't mean you need to help the fiscal authority, certainly not politically - you just need to be willing to do so when policy is justified.

I believe that future central bankers and macroeconomic policymakers who follow these four guidelines in spirit, particularly in your public-facing role, can do a lot of good as Agustín Carstens demonstrated.