



# SHAKE UP IN MEXICO'S CABINET

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## SUMMARY

- Mexico's Finance Secretary Luis Videgaray, one of President Enrique Peña Nieto's closest advisers and a potential presidential candidate in 2018, resigned on September 7 following Donald Trump's visit to Mexico.
- The shake-up underscores the changing economic and political landscape in Mexico, particularly as Peña Nieto's party, the Institutional Revolutionary Party (PRI), seeks to maintain control over the presidency after the 2018 elections.
- Foreign investors should not expect unpleasant surprises on the economic policy front. José Antonio Meade, the new Secretary of Finance, will carefully but systematically trim expenditures, ensure greater coordination with Central Bank Governor Carstens and improve relations with the Congress and the business sector.

## ABOUT ASG

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## TRUMP VISIT TRIGGERED, NOT CAUSED, RESIGNATION

Mexican Secretary of Finance and Public Credit (SHCP) Luis Videgaray played a crucial role in orchestrating last month's visit by U.S. presidential candidate Donald Trump. He was the main Cabinet-level proponent of the visit, which was strongly opposed by the Ministry of Foreign Relations (SRE). According to Videgaray, the invitation was intended to reassure financial markets and dispel fears that a Trump presidency would have a negative impact on the Mexican economy. One week after the visit, Videgaray resigned.

Videgaray drained much of his political capital even before the ill-received Trump visit. Public confidence in Videgaray had begun to wane months before due to: (1) the lackluster performance of the Mexican economy, which has grown at an average of 2 percent annually since Peña Nieto took office in December 2012; (2) the business sector's increasingly contentious relations with the government over tax increases during a time of slow growth; and, (3) the substantial increase of public debt as a percentage of GDP (from 37 to 50 percent) in the last four years, triggering a negative outlook by S&P, Moody's, and Fitch. In addition, [his reputation had been tarnished](#) with the purchase of a home from a government contractor.

## ECONOMIC POLICY AND PATH TO 2018 ELECTIONS

### *Economic Policy Implications*

Videgaray was the architect and political operator of the Peña Nieto administration's economic policies. [José Antonio Meade](#), who replaced Videgaray as Secretary of Finance, served in this role under the previous National Action Party (PAN) administration. He is a capable and honest technocrat who has the confidence of national and international business interests. He has also served as Secretary of Foreign Relations and Secretary of Social Development under Peña. He is expected to have a better relationship with the PAN than Videgaray, and there is hope that he can

reconnect with a private sector that opposed Videgaray's tax increases and enjoy a constructive relationship with Congress. This would facilitate negotiations over federal revenues (*Ley de Ingresos*) and the budget (*Presupuesto de Egresos*). Given his previous stint as Secretary of Finance, Meade will draw on his close working relationship with Agustín Carstens, Governor of Mexico's Central Bank, to align fiscal and monetary policies. In contrast, the relationship between Carstens and Videgaray was contentious at times, with Carstens [uncharacteristically voicing concern over SHCP's fiscal policy](#).

Vanessa Rubio, the new Under Secretary of Finance, has served under Meade in key posts at SHCP, the Ministry of Social Development (SEDESOL), and the Ministry of Foreign Relations. In another change, Osvaldo Santín replaced Aristóteles Núñez as Head of the Mexican Tax and Customs Administration. Santín was a top level adviser to Videgaray at SHCP and is also close to Meade. These appointments give Meade the relationships to run SHCP with true authority; often, Mexican Secretaries are not allowed to select their key deputies, which are instead appointed directly by the Office of the President.

### *New Landscape for 2018*

With Videgaray's departure, Meade rises as the leading candidate from the "technocratic" wing of the Mexican Cabinet. The leading candidate from the "political" wing of the Cabinet is Secretary of the Interior Miguel Angel Osorio Chong, who leads Mexico's homeland security efforts. Osorio will endeavor to overcome the criticisms of his actions during events including the disappearance of 43 students in Ayotzinapa, El Chapo Guzman's escape from prison, and the increasingly violent and disruptive protests by the dissident teachers' union.

Secretary of Education Aurelio Nuño, Secretary of Agriculture José Calzada Roviroso, and the Governor of the State of Mexico Eruviel Avila, are long-shot candidates although the volatility of Mexican politics at this juncture means that the political landscape can change quickly.

Luis Miranda, who is known to be a long-time confidante of the president, replaced Meade at SEDESOL. This move gives Peña Nieto a direct hand on the purse strings of SEDESOL. SEDESOL's budget allocations will have a bearing on local politics and increase the president's influence on the 2018 presidential succession.

The departure of Videgaray will provide Peña Nieto some short-term political relief, but his low approval ratings are likely to continue through the end of his term. Peña Nieto will have to reconnect with several influential PRI politicians who did not welcome Enrique Ochoa's appointment as PRI president last June. Ochoa, former head of the Federal Electricity Commission (CFE) and a close advisor to Peña Nieto, had little if any experience as a PRI supporter. Manlio Fabio Beltrones, former PRI president, is likely to play a key role in behind-the-scenes domestic political maneuvering towards the presidential succession.

### *Next Steps*

Secretary Meade has his work cut out for him given that significant budget cuts will continue until the end of Peña administration in December 2018, but he has a good shot at being the PRI presidential candidate. On the economic policy front, foreign investors should not expect unpleasant surprises. Meade will carefully but systematically trim expenditures, ensure greater coordination with Central Bank Governor Carstens, and improve relations with Congress and the business sector.

Meade's well-deserved reputation as a capable technocrat, together with the support he garners in PRI and PAN circles, and his squeaky-clean image will stand him in good stead in the coming months.

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*ASG's Latin America Practice* has extensive experience helping clients navigate markets across Latin America. For questions or to arrange a follow-up conversation please contact [Antonio Ortiz-Mena](#).

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