

Central Banks

Monetary rate unchanged at 3.0%. Neutral tone as short term inflation risks rose

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Banxico changed its tone to a neutral one as the risks for economic activity decreased while short term inflation poses more risks than previously anticipated

- As expected, second quarter growth figure weighted on the improvement of the balance of risks of economic activity. Even considering the so called “important recovery” of growth, the statement stressed the economic slack and the absence of demand side pressures on prices.
- Unexpected non-core shocks prompted an impairment of inflation balance of risks in the short term. Expectations remain subdued however.
- Banxico revised to the upside its inflation forecasts: Headline inflation will be close to 3.0% during the first half of 2015 and not since January as previously expected; while at the end of 2014 inflation is expected to be around 4.0% and not under 4.0% as was stated in the last Quarterly Inflation Report.
- Regarding core inflation, at the end of 2014 the central bank expects it to be close to 3.0% and not around 3.0%. For 2015 the expectations remain that it will be below 3.0%.
- It is worth noting that these updated forecasts imply that the real short term rate will remain negative for longer
- Concerning the world economy, the central bank improved the balance of risks as US economic figures have been better than expected.
- Bottomline. In a context of protracted economic slack, today’s neutral tone and our economic perspectives supports our expectation of a monetary pause for the rest of 2014.

Chart 1

Highlights from recent statements

	11-Jul-14	05-Sep-14	Bottom line*
Global context	<ul style="list-style-type: none"> World economic growth was lower than expected but there are signs of a slight improvement Considerable recovery in the US in the second quarter Downside risks prevail Low global inflation 	<ul style="list-style-type: none"> World economic growth recovered during the 2Q. US Economic activity and employment strengthened In balance, downside risks for world economic growth have declined 	Optimistic tone prompted by US economic figures
Economic activity	<ul style="list-style-type: none"> More dynamic exports, domestic expenditure does not show clear signs of recovery The economic slack prevails The output gap will remain in negative terrain until the last part of 2015 	<ul style="list-style-type: none"> The balance of risks of economic activity improved Domestic demand recovered somewhat The economic slack prevails 	Less dovish tone, while slack was stressed
Inflation	<ul style="list-style-type: none"> The balance of risks continues being favourable It is expected that general inflation will be close to 3.0% from January 2015 	<ul style="list-style-type: none"> Balance of risks impaired in the short run due to transitory factors Inflation is expected to close 2014 around 4.0% It is expected that headline inflation will be close to 3.0% during the first half of 2015 	Slightly hawkish tone as the balance of risks impaired
Policy decision	0.00	0.00	
Rate	3.00	3.00	

* Own interpretation based on the tone and wording of the Policy Statement

Source: BBVA Research with Banxico's information.

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