Central Banks

The central bank is holding the monetary policy rate unchanged at 3.0% and the risk assessment remains unaltered

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According to the central bank, the possible rise in the MPR in the United States and its effects on the exchange rate are still the most significant risks affecting whether convergence by inflation towards its target rate is achieved and consolidated

- The central bank directly links the slack prevailing in the economy with the fall in inflation which has been recorded in a context of exchange rate depreciation. With regard to exchange rate passthrough, it says that this is within expectations and has not given rise to second-round effects
- The inflation forecasts are also associated with demand weakness in forthcoming quarters, which means that the central bank appears more confident of inflation holding below (and not “close to”, as was said in previous statements) 3.0% over the rest of the year
- With respect to upside risks for inflation and given the low levels presented by this variable, the wording specifies that the central bank’s attention is taken up with any potential passing on of the conditions relating to the exchange rate to inflation expectations
- With the balance of domestic activity risks unchanged, the central bank highlights the decline in industrial production in Q1 and the half-heartedness of investment recovery. On consumption, as in previous statements, it says that some indicators appear to be reviving
- **Opinion**. The central bank emphasises that it is not only looking to achieve convergence by inflation towards the 3.0% target, but also to consolidate this. At the moment, the start of the MPR hikes in the United States and their potential adverse effects on inflation represent the biggest risk to achieving the target. We therefore think that the central bank will modify its monetary policy stance in step with the Federal Reserve towards the third quarter of the year, although one cannot rule out the Fed delaying the first MPR hike if US economic activity needs more time to take off. It should be noted that the differential in the level of the policy rates between Mexico and the United States and the weakness in Mexico’s economic cycle compared to the United States could mean that the pace of the reference rate rises in Mexico is slower than in the United States.

Table 1
Highlights from recent statements

	Apr-30th-15	Jun-4th-15	Bottom line*
Global context	• World economic growth **remains weak** • US economic growth **tempered** • The balance of risks of economic activity **remains unchanged relative to the latest meeting.**	• US economy shrank during 1Q15 due to transitory factors. • The balance of risks of global economic activity and inflation **remain unchanged relative to the latest meeting.**	**Dovish tone**
Economic activity	• The **risks are tilted to the downside**. • Economic activity **exhibits weakness** • The economic slack prevails • Some **consumption indicators seem to be recovering.**	• The **balance of risks remains unchanged**. • Economic activity **exhibits weakness** • The economic slack prevails • Some consumption indicators seem to be recovering.	**Dovish tone**
Inflation	• **Balance of risks with no major changes** • **Additional peso depreciation is the major risk factor** • The evolution of **inflation has been favorable** • Exchange rate **passthrough to prices has been in line with central bank's expectations** • It is expected that **inflation will remain close to 3.0% in the coming months**.	• **Balance of risks with no major changes** • Headline inflation has been **below 3.0% in spite of peso depreciation.** • Exchange rate **passthrough to prices has been in line with central bank's expectations** • Exchange rate **passthrough to inflation expectations** is the major risk factor. • It is expected that **inflation** will be **below 3.0% in the coming months**.	**Cautious tone**
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 based on monetary policy statements.