

# Flash México

As BBVA Research anticipated, Banxico cut the monetary policy rate by 25 basis points and dismissed another rate cut

- Banxico stresses that downside risks on domestic activity remain elevated, though they have decreased from the last monetary policy meeting. In addition it underlines that an incipient recovery is under way.
- The improvement of the inflation balance of risks remains as prices are still subdued and the slack in the economy signals no demand side pressures in 2013 and 2014. On the other hand the statement confirms the absence of significant effects on inflation coming from the recent floods.
- Regarding global activity, the central bank points out that downside risks linger.
- Money and exchange rate markets well-functioning during recent volatility episodes were stressed.
- As we expected since last May<sup>1</sup>, Banxico accomplished the 50bp rate cut and dismissed another one. We consider that the latter could respond to the central bank willingness to not keep a negative real rate as tax changes could lead inflation around 4.0%.

Tabla 1  
Highlights from recent statements

	06-Sep-13	25-Oct-13	Bottom line*
<b>Global context</b>	<ul style="list-style-type: none"> <li>• <b>Mixed performance:</b> improvement in advanced economies, gradual strengthening in the US continues; <b>growth in emerging countries has weakened</b></li> <li>• <b>Downside risks prevail</b></li> <li>• <b>Low global inflation</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Weak performance:</b> Moderate expansion in the US; <b>lower than expected growth in emerging economies</b></li> <li>• <b>Downside risks prevail</b></li> <li>• <b>Low global inflation</b></li> </ul>	<b>Downside risks prevail</b>
<b>Economic activity</b>	<ul style="list-style-type: none"> <li>• <b>Weakness significantly intensified, more than anticipated</b></li> <li>• <b>Output gap has widened significantly</b></li> <li>• <b>Growth in 2013 will be much lower than currently expected and growth for 2014 will also be revised downwards</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Incipient recovery during 3Q</b></li> <li>• Output gap has widened significantly</li> <li>• <b>Downside risks linger, but its magnitude has diminished</b></li> </ul>	<b>A protracted large output gap</b>
<b>Inflation</b>	<ul style="list-style-type: none"> <li>• <b>Further improvement in the balance of risks; core inflation will remain close to all-time low levels for the next 18 months</b></li> <li>• <b>Reforms progress could lead to lower inflation in the mid-term; changes in relative prices due to the fiscal reform would have temporary effects</b></li> <li>• <b>Exchange rate pass-through to inflation would be low if the MXN depreciated further</b></li> </ul>	<ul style="list-style-type: none"> <li>• Improvement in the balance of risks remains</li> <li>• <b>No demand side pressures on prices in 2013 and 2014</b></li> <li>• <b>Recent storms had no significant effect on inflation</b></li> <li>• <b>Tax changes will have a moderate and transitory effect on inflation</b></li> </ul>	<b>Economic weakness leads to downward pressures</b>
<b>Policy decision</b>	-0.25	-0.25	<b>An additional rate cut is dismissed</b>
<b>rate</b>	3.75	3.50	

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

Fuente: BBVA Research y Banxico

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<sup>1</sup> Available at [http://www.bbva.com/KETD/fbin/mult/130510\\_SemanalMexico\\_396\\_eng\\_tcm348-386271.pdf?ts=25102013](http://www.bbva.com/KETD/fbin/mult/130510_SemanalMexico_396_eng_tcm348-386271.pdf?ts=25102013)

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