

Banxico Flash

Fondeo rate unchanged at 3.5%; tone aimed at anchoring inflation expectations

- Banxico stresses the impairment of the inflation balance of risks as the possibility of second round effects stemming from recent price increases and exchange rate depreciation episodes cannot be dismissed.
- As expected, Banxico underlines the transitory nature of the recent inflation hike and anticipates that it will not affect the price formation process. However its inflation perspectives for 2014 and 2015 show an increase with respect to the previous statement.
- This is the first time since April 2012 that the statement underlines an improvement in the balance of risks of economic activity. In addition, even though the reference to the economic slack remains, it is not regarded as “considerable” and is not expected to last for a long period as was the case in previous statements.
- Regarding world economic activity, Banxico considers that downside risks prevail but that economic growth perspectives improve.
- Bottom line: in face of the recent inflation hike, Banxico’s tone has turned slightly hawkish in an attempt to anchor inflation expectations. This, along with the possibility of pass-through to other prices will be the main sources of concern for Banxico in the coming months. BBVA Research maintains its call of a protracted monetary pause as the recent inflation hike is expected to be transitory and the economic slack continues.

Table 1

Highlights from recent statements

	06-Dec-13	31-Jan-14	Bottom line*
Global context	<ul style="list-style-type: none"> • Slight improvement: US recovery continues • moderate growth in emerging economies • Downside risks prevail • Low global inflation 	<ul style="list-style-type: none"> • Economic growth perspectives improve: US improvement continues; difficult outlook for emerging economies • Considerable downside risks prevail • Low global inflation 	Downside risks prevail
Economic activity	<ul style="list-style-type: none"> • Economic growth resumed during 3Q13 • A considerable degree of economic slack remains and is expected to linger for a long time 	<ul style="list-style-type: none"> • The balance of risks of economic activity has improved. • A gradual recovery continues • Economic slack is expected to continue for some time 	A more optimistic tone
Inflation	<ul style="list-style-type: none"> • Balance of risks unchanged • Inflation is expected to fluctuate around 3.5% during 2013 and 2014 • Tax changes will have a moderate and transitory effect on inflation 	<ul style="list-style-type: none"> • Impairment of the balance of risks • Inflation is expected to close 2014 below the 4% level and slightly above 3% in 2015 • Recent inflation increase will have a transitory effect on inflation and will not affect the price formation process. • The risk of second-round effects from recent price increase cannot be ruled out 	Hawkish tone
Policy decision	0.00	0.00	A protracted monetary pause
rate	3.50	3.50	

* BBVA Research interpretation based on the tone and wording of the Policy Statement

Source: BBVA Research and Banxico

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