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As we expected, it was decided to leave MPR at what the Central Bank considers its terminal level

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It had to happen. The Central Bank has cut the MPR (Monetary Policy Rate) by 25bp and modified its bias to a neutral one. It would be consistent with the macro scenario of the CB to cut the rate despite the fact that consensus and all the surveys were inclined - incorrectly, from our point of view - to maintain it.

Does that mean the cuts are finished with? For now we foresee no more movements for at least two or three months. We expect the Monetary Policy Report to be revealed at the beginning of June to shed light on the time that the Board estimates the MPR will remain at 2.5%. It cannot be ruled out that even with disappointments in activity/inflation, the CB would prefer to keep the MPR at 2.5% for a longer time instead of continue cutting. It is a scenario that cannot be ruled out, since the Board has shown itself to be comfortable with the level of the real MPR in a historical perspective and in comparison with other economies. For now, we insist that we see no value in the short part of the curve.

What is required in order to continue cutting the MPR? Certainly some time to check whether activity/employment/inflation are shown to be better than the Central Bank and BBVA Research anticipates (wait and see for at least 2 meetings). If we see consecutive disappointments in the coming months, the first reaction we expect is a message about keeping the MPR at 2.5% for longer, and then assessments of new cuts that this time would occur without modifying the bias. If additional cuts are to come, it would be with a neutral bias, since we estimate that the additional dose of monetary stimulus would be limited.

Another cut that surprises the market. The EEE (Survery of Economic Expectations), the EOF (Survey of Financial Operators) and the Bloomberg survey showed the market inclined towards the maintenance for this meeting of a ratio of approximately 65%-35%. The 25 bps cut was in line with our expectation as well as the new neutral bias, weighing up among other things the fact that, although the current figures had not been surprising, the minute of the previous MPM (Monetary Policy Meeting) together with declarations by some board members made it clear that an MPR of 2.5% was consistent with the baseline scenario. Things being thus, with no surprises in the economic figures, there was no reason to wait to take the rate to its terminal level and leave a neutral bias in this opportunity.

Internally, as in the previous meeting, it is highlighted that the activity and inflation figures have been kept in line with what was considered in the Monetary Policy Report. Along with the negative impacts from mining during these months, a reference is added to the negative outlook for the construction sector, which according to National

Accounts figures would have had a negative impact on growth in the first quarter of the year. In addition, it is mentioned that the trade sector remains stable and aligned with the labour market situation, which confirms the doubts regarding the future evolution of activity since the employment trend, especially among salaried employees, has been downwards in the last months.

The recent volatility in the international scenario does not threaten the Central Bank, which is waiting to see whether these are transitory or permanent effects. There are very few differences between the analysis of the external environment of this Press Release with that of the previous month. They continue to highlight favourable financial conditions and a background of higher growth in developed countries. On this occasion, a fall in the price of copper is highlighted. Most significantly, reference is made to the recent increase in the volatility of financial markets. Indeed, news in the political arena, such as what is happening in the United States and Brazil, has hit the international stock markets hard, but as it is early to assess whether these are transitory or permanent effects, the Central Bank is limited to mentioning what is actually happening and has not shied away with its decision to cut the rate.

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