

Banxico Flash

Fondeo rate unchanged at 3.5%, as expected.

- Today's statement displays a less dovish tone about economic activity. It was stressed that the latter resumed its growth during third quarter. Furthermore, this is the first time since April that downside risks for economic activity were not considered elevated.
- Banxico points out that the main risk for economic activity is a reduction of private sector funding as a consequence of financial markets volatility and the crowding out from additional public funding.
- The inflation balance of risks remains unchanged, given the economic slack that is expected to linger for a long period.
- Regarding world economic activity, downside risks prevail, even though a slight improvement was stressed.
- As BBVA Research anticipated Banxico maintained the monetary policy rate unchanged. The expectation of a subdued inflation during 2013 and the lingering economic slack are consistent with our protracted monetary pause scenario.

Table 1

Highlights from recent statements

	25-Oct-13	06-Dec-13	Bottom line*
Global context	• Weak performance: Moderate expansion in the US; lower than expected growth in emerging economies • Downside risks prevail • Low global inflation	• Slight improvement: US recovery lingers; moderate growth in emerging economies • Downside risks prevail • Low global inflation	Downside risks prevail
Economic activity	• Incipient recovery during 3Q • Output gap has widened significantly • Downside risks linger, but its magnitude has diminished	• Economic growth resumed during 3Q • A considerable degree of economic slack remains	A less pessimistic tone
Inflation	• Improvement in the balance of risks remains • No demand side pressures on prices in 2013 and 2014 • Recent storms had no significant effect on inflation • Tax changes will have a moderate and transitory effect on inflation	• Balance of risks unchanged • Inflation is expected to oscillate around 3.5% during 2013 and 2014 • Tax changes will have a moderate and transitory effect on inflation	Economic weakness leads to downward pressures
Policy decision	-0.25	0.00	A protracted monetary pause
rate	3.50	3.50	

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

Source: BBVA Research and Banxico

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