

Banxico Flash

Fondeo rate unchanged at 3.5%. Slightly dovish tone given the absence of a clear economic recovery

- Banxico stresses that the economic slowdown that started in 2013 has extended to the beginning of 2014 as there is not a clear recovery of aggregate demand. This contrasts with the improvement of the balance of risks of economic activity pointed out in the last statement. In its policy paragraph the central bank underlines that it will follow particularly the evolution of the output gap in the determination of its policy stance.
- The statement points out an improvement of the inflation balance of risks as inflation figures and its expectations decreased from the levels seen the previous month.
- Regarding world economic activity, Banxico considers that downside risks prevail but maintains the improvement of economic growth perspectives.
- Bottom line: Once the risk of second round effects stemming from tax increases did not materialize, economic activity concerns play again a primary role in Banxico's communication. We consider that current economic conditions, the central bank communication and BBVA Research economic perspective remain consistent with a protracted monetary pause. It is worth noting that inflation may gain weight in Banxico's communication during the summer as it could reach a level of around 4.5% due to a base effect. However, increasing the weight of inflation in the communiqué would be an effort to anchor expectations as the inflation increase will be transitory.

Chart 1

Highlights of recent statements

	31-Jan-14	21-Mar-14	Bottom line*
Global context	<ul style="list-style-type: none"> • Economic growth perspectives improve: US improvement continue; complicated perspectives for emerging economies • Considerable downside risks prevail • Low global inflation 	<ul style="list-style-type: none"> • Economic growth perspectives improve: US improvement below expectations; growth perspectives for emerging economies decreased • Considerable downside risks prevail • Low global inflation 	Downside risks prevail
Economic activity	<ul style="list-style-type: none"> • The balance of risks of economic activity has improved. • A gradual recovery continues • The economic slack remains and is expected to linger for some time 	<ul style="list-style-type: none"> • The balance of risks of economic activity has not improved notoriously. • There is no signal of a clear recovery of aggregate demand • The economic slack remains 	dovish tone due to the slow recovery
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 dismissed 	<ul style="list-style-type: none"> • Improvement of the balance of risks • Recent inflation figures support the expectation that the recent inflation increase has been transitory and has not affected the price formation process. 	slight dovish tone
Policy decision	0.00	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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