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Banxico Watch

Banxico delivered a 50bp cut and left doors open to another same-sized cut in May

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The Central Bank strongly suggested that, with inflation in check, growth concerns are increasingly carrying more weight on policy decisions

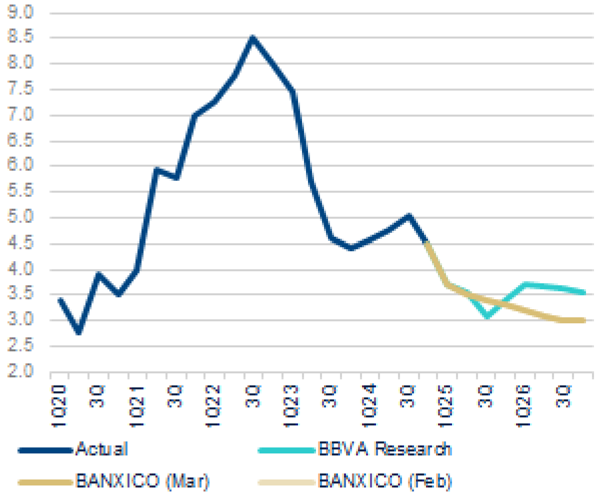
- **Banxico lowered the policy rate by 50 bps to 9.00%, bringing the ex-ante real rate down to 5.1%, still very restrictive as it is 150 bps above Banxico's own 3.6% upper-bound estimate for the neutral rate.** The decision was unanimous. On growth, the Board highlighted that "global risks continued increasing" amid "escalating trade tensions" to which Mexico is and will not be immune. Among the effects is a possible impact "on the economic weakening." Banxico expects "weakness once again" in 1Q25 (we believe there is a high likelihood that growth will be negative this quarter) and underscores that the current "environment of uncertainty and trade tensions poses significant downward risks", a view with which we agree.

- **The statement not only kept a strong dovish tone, but also added some dovish tweaks to the inflation wording.** It seems that there is growing confidence among Board members about the inflation outlook. First, Banxico will likely soon cease to consider that the balance of risks for inflation maintains an upward bias: for the first time, it recognized that "it has improved" (we think that the statement is one meeting away from dropping the assessment that inflation risks remain tilted to the upside). Second, Banxico acknowledged that the effect of tariffs "could imply inflationary pressures on both sides of the balance." Indeed, we deem lower pressure on prices more probable, due to reduced aggregate demand following a possible blow to the Mexican export engine. Third, Banxico seems to no longer think that core inflation persistence is the most important upside risk to inflation, but rather a possible peso depreciation. Shifting the order of upside risks to inflation, moving core inflation persistence to third, sends that message. In addition, Banxico left both its headline and core inflation forecasts unchanged for the forecast horizon, pointing to continued confidence that core inflation is set to ease further ahead. Thus, Banxico kept its 2025 expected inflation paths close to ours (see Figures 1 and 2), but is still estimating that both measures of inflation will reach 3.0% at some point in 2026, as opposed to our view that inflation is more likely to hover around 3.5% as it has never consistently hit the 3% target.

- **Amid rising growth concerns and easing inflation pressures, Banxico left the door wide open for a third consecutive 50bp cut in May** The forward guidance,—a recent welcomed change from the past—continued to state that "looking ahead [the Board] could continue calibrating the monetary policy stance and consider adjusting it in similar magnitudes." As we explained a couple of days ago (see), we believe that Banxico's confidence in delivering a third big rate cut will be contingent upon the peso's orderly trading conditions and the absence of a marked depreciation. The Board continued to describe the current monetary policy "stage" as one in which they are seeking "to bring inflation from its current level, around its prepandemic historical average, to the 3% target," requiring a less restrictive stance given current challenges, "including the possible impact of changes in trade policies worldwide." Overall, Banxico seems to be strongly suggesting that it is on a path towards removing the still very restrictive monetary policy stance as fast as possible, instead of focusing on upside inflation risks, which are always there. **The unchanged forward guidance signals significant odds of another 50bp rate cut in May, continues to suggest that a string of consecutive rate cuts ahead is likely, and strongly supports our below-consensus 7.5% policy rate forecast for the end of this year (consensus: 8.0%, market: 8.0%).**

Banxico left its inflation forecasts unchanged. It continues to expect inflation…

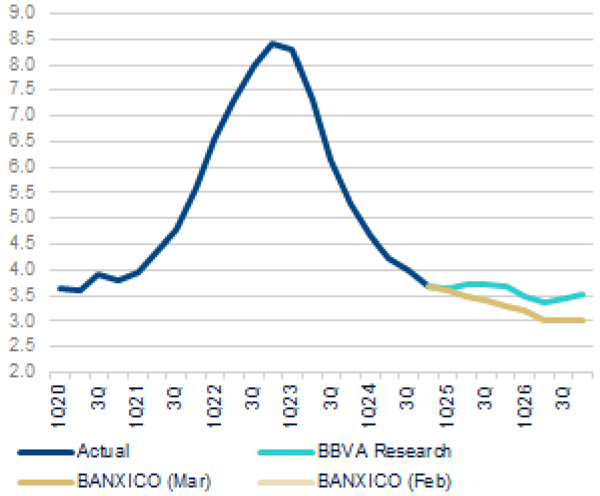
Figure 1. **HEADLINE INFLATION OUTLOOK**
(YOY % CHANGE, QUARTERLY AVERAGE)



Source: BBVA Research / Banxico / INEGI

… to stay below 3.5% from 3Q25 onwards and to converge to 3.0% in 2026

Figure 2. **CORE INFLATION OUTLOOK**
(YOY % CHANGE, QUARTERLY AVERAGE)



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