

Banxico QR – Data-dependency will be maintained

- Banxico published today its 1Q24 *Quarterly Report* (QR). We think that the document maintained a relatively more hawkish tone, similar to recent communications
- The Q&A session centered in the actions that could be taken in upcoming meetings. Overall, responses remarked the need to remain data-dependent, although with some divergence between members
- Regarding estimates, GDP for this year was revised to 2.4% from 2.8% (Banorte: 2.4%), also with an adjustment lower in employment forecasts. Meanwhile, those for inflation were unchanged relative to the [latest statement](#), as in recent updates
- The tone of the statement and members' comments support our view of a 25bps cut in June, although with risks that this will not materialize increasing due to inflation surprises

The hawkish tone extends to the *Quarterly Report* (QR). As expected, attention centered in the Q&A, as well as on macroeconomic updates. On the former, we focused on comments about upcoming actions and the conditions that will be evaluated for the decisions. The most persistent response was that data dependency will continue, especially those on inflation. Nevertheless, members' comments showed differences, in line with what we identified in the [latest minutes](#). Regarding estimates, we highlight the revision lower to this year's GDP by 40bps to 2.4%, with much of the adjustment related to [lower-than-expected growth in 1Q24](#). It is important to note that the output gap would return to negative territory by mid-2025 on the back of this, which Banxico did not contemplate in its estimates since the 2Q23 QR. Considering this, other points within the document and responses from Board members, we maintain our view of a 25bps in June, taking the rate to 10.75%. After this, we believe graduality will continue, with a pause in August and continuous cuts afterwards –of a 25bps magnitude– starting in September. As a result, the reference rate would close 2024 at 10.00%. Nevertheless, given [recent inflation dynamics](#), the risks that a cut will not materialize in the upcoming decision has increased, which would only worsen in case of new upward surprises.

Larger divergence in opinions about future actions. Questions were made on several topics, albeit focused on upcoming decisions, inflation, and economic activity. About the former, we highlight that Governor Victoria Rodríguez remarked that they will be discussing the possibility of 'cuts', which is completely aligned to the statements we attributed to her in the minutes. Meanwhile, Omar Mejía argued that it is possible to adjust the monetary restriction considering progress on the decline of inflation and a less adverse balance of risks, at least at the margin. This leads us to believe that he would be willing to continue with rate reductions. Finally, Galia Borja mentioned that she finds it prudent to continue with a gradual and data-dependent approach. In addition, she argued that the stance is markedly restrictive and can be calibrated, which we think suggests that she would also be willing to push on with cuts.

Inflation forecasts and its balance of risks remain unchanged. The inflation path and the risks that would impact it did not show any changes to what was already published in the last statement. As usual, additional details were included for each of the factors that make up the balance of risks –which remains skewed to the upside. We highlight the participation of Governor Victoria Rodríguez reaffirming that headline inflation will remain on a downward path, but at a more gradual pace. Furthermore, Galia Borja recognized that the inflationary process has become more complex.

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Banxico's decisions in 2024

Date	Decision
February 8th	0bps
March 21st	-25bps
May 9th	0bps
June 27 th	--
August 8 th	--
September 26 th	--
November 14 th	--
December 19 th	--

Source: Banxico



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CPI forecasts

% y/y, quarterly average

	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1T26
Headline	4.7	4.3	3.9	3.5	3.2	3.1	3.1	3.1	3.0
Core	4.6	4.1	3.7	3.5	3.2	3.1	3.1	3.1	3.0

Source: Banco de México. *Observed data

A new downward revision in 2024 GDP, with 2025 unchanged. For 2024 we saw a 40bps reduction in the central forecast to 2.4% (range: 1.9% to 2.9%), matching our estimate. The revision was due to lower-than-expected growth in the first quarter of the year, with the rest of the outlook without major changes—highlighting an acceleration in 2Q24 and a more limited performance in the second half. For 2025, the estimate stayed at 1.5%, with Irene Espinosa emphasizing that the base case does contemplate some degree of fiscal consolidation. Furthermore, Jonathan Heath was clear in mentioning that it does not imply a recession. Thus, throughout the horizon, risks for activity remain balanced. Finally, and as we already mentioned, the output gap would return to negative territory in mid-2025, which could imply some room in terms of demand side pressures towards the end of the forecast horizon.

Changes in other estimates. Banxico adjusted its view for job creation affiliated to IMSS to the downside for both 2024 and 2025, in line with lower growth, although with the figures still pointing to a resilient labor market. On external accounts, wider deficits are anticipated in the trade balance and the current account in both years, [consistent with their performance so far](#). For further details, see the tables below.

Banxico's Forecasts

Current Report (1Q24)

	2024	2025
GDP (% y/y)		
Central scenario	2.4	1.5
Range	1.9 to 2.9	0.7 to 2.3
Employment (thousands)	510 to 670	510 to 710
Trade Balance (US\$ bn)	-27.5 to -19.5 (-1.4% to -1.0% of GDP)	-28.5 to -18.5 (-1.5% to -1.0% of GDP)
Current account (US\$ bn)	-24.6 to -12.1 (-1.3% to -0.6% of GDP)	-28.1 to -12.1 (-1.5% to -0.6% of GDP)

Source: Banxico

Banxico's Forecasts

Previous Report (4Q23)

	2024	2025
GDP (% y/y)		
Central scenario	2.8	1.5
Range	2.2 to 3.4	0.7 to 2.3
Employment (thousands)	580 to 760	530 to 730
Trade Balance (US\$ bn)	-25.6 to -17.6 (-1.3% to -0.9% of GDP)	-27.9 to -17.9 (-1.5% to -1.0% of GDP)
Current account (US\$ bn)	-22.6 to -10.1 (-1.2% to -0.5% of GDP)	-27.2 to -11.2 (-1.5% to -0.6% of GDP)

Source: Banxico

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