

## Contributors

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## Mexico—Banxico Minutes: Another 75bps Hike in August?

- **A hawkish tone tees up another 75 basis point hike in August, as inflation risks are skewed to the upside**

**On July 7, Banxico published the minutes corresponding to June's unanimous decision to increase the monetary policy rate by 75 basis points to 7.75%.** In our view, the tone of the statement has a hawkish bias, suggesting that the board is willing to act "forcefully" to ensure convergence to the inflation target in an environment in which inflation expectations continue to deteriorate and the balance of inflation risks, both domestic and external, remains markedly biased to the upside. Given the above, **we believe Banxico will again hike 75 basis points in August**, although we do not rule out the possibility that one or two board members may not vote to continue tightening at this pace.

**The global environment is marked by increased uncertainty**, as most board members agreed that the mobility restrictions in China following increased COVID-19 spread, Russia's invasion of Ukraine, and persistent price pressures skew the balance of risks for global economic activity to the downside and to the upside with respect to inflation. They also noted that global financial conditions have tightened, with restrictive stances in both emerging and developed markets. In this regard, all board members highlighted the Federal Reserve's latest 75 bps move and mentioned that the federal funds rate could rise above 3.5%. Likewise, several members commented on the importance of preserving Banxico's relative monetary stance with the Federal Reserve, though one member commented that "there is room for an eventual decrease in the spread between the Mexican and U.S. reference rates".

**Economic activity in Mexico remains buoyant**, with most board members expecting the economic recovery to continue in the second quarter of 2022, partly supported by tertiary activities, especially consumption, although investment continues to show some slack and the labor market recovery remains incomplete and uneven across regions. As a result, some board members voiced concerns that the balance of risks to growth is skewed to the downside.

**Inflation remains the priority**, as board members mentioned the pressure on core inflation from external global factors on food and energy prices, highlighting the uncertainty about how long it will take for these shocks to dissipate. Some members also commented that there are inflationary pressures from labor costs. However, what stands out most in the document is the discussion around the importance of taking "firm and forceful action" and the observation that a "faster pace of tightening" is required to restore confidence in Banxico's commitment to bring inflation to target.

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