Latam Daily: Banxico *Quarterly Inflation Report* Raised Growth and Inflation Forecasts

- **Mexico: Banxico raised growth and inflation forecasts in March *Quarterly Inflation Report*, provided analysis on current policy reforms**

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MEXICO: BANXICO RAISED GROWTH AND INFLATION FORECASTS IN MARCH *QUARTERLY INFLATION REPORT*, PROVIDED ANALYSIS ON CURRENT POLICY REFORMS

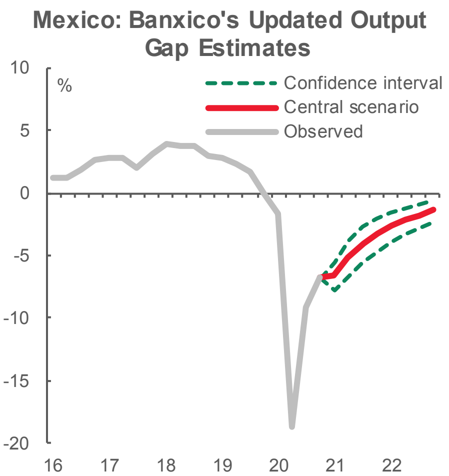
Banxico released on Wednesday, March 3, its Q1-2021 *Quarterly Inflation Report* (*QIR*), where it raised slightly its growth and short-term inflation forecasts, as well as providing some analysis on current policy issues.

Banxico's staff now expects economic slack to remain until at least the end of 2022 (chart 1), but inflation is expected to converge downward to its 3% target by the end of 2021 (chart 2). In terms of growth, Banxico updated its growth forecast for 2021 to 4.8% y/y in its baseline scenario, from 3.3% y/y in the Q4-2020 *Quarterly Inflation Report*. The assessment of the balance of risks to growth seem to be skewed to the downside, with several of concerns potentially feeding off each other in an adverse scenario—including those stemming from new bouts of pandemic-induced economic restrictions. In contrast, Banxico's staff view inflation risks as more evenly balanced.

Banxico's updated forecasts imply some reassurance about our call for two additional -25 bps cuts in Q3-2021, but there are still substantial uncertainties around this call. Base effects should drive headline annual inflation up over the next three to four months and could stay the Board's hand on further easing. Additionally, rising global rates could also narrow the space for more accommodative monetary policy in Mexico.

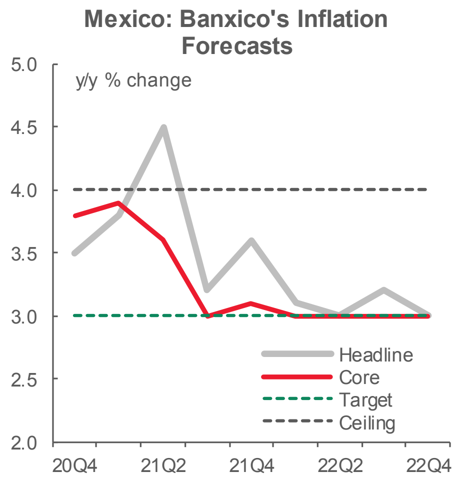
Banxico's staff also provided its analysis of some key policy debates happening in Mexico.

Chart 1



Sources: Scotiabank Economics, Banxico.

Chart 2



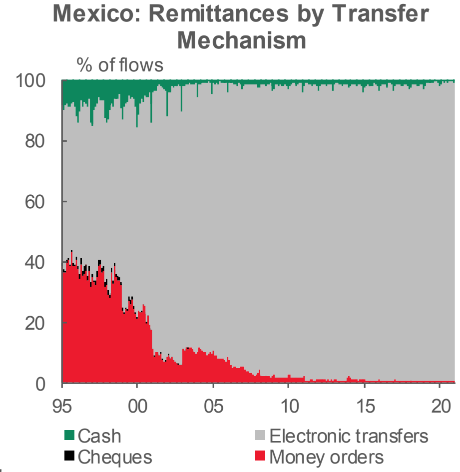
Sources: Scotiabank Economics, Banxico.

- **The *QIR* looked at the remittances bill that, if passed, would have forced the central bank to buy USD in the retail spot market to absorb incoming foreign-currency transfers.** Banxico noted that there is little need for it to enter FX markets in this manner: most municipalities that receive material amounts of USD cash from either remittances or tourism have relationships with existing, formal financial institutions to handle exchange transactions. Moreover, most remittances come in via digital channels (chart 3) and are already handled smoothly.

- **On the recent plans for pension reform, Banxico provided an interesting analysis of the possible impact of the proposals on public finances and the country's major financial indicators.** Overview, Banxico's view seemed supportive even if the present value of the reform's fiscal costs is expected to hit 9.1% of GDP between 2021 and 2100. Deepening the country's domestic pool of savings is likely to be the most positive by-product of the proposed changes.

—Eduardo Suárez

Chart 3



Sources: Scotiabank Economics, Banxico.