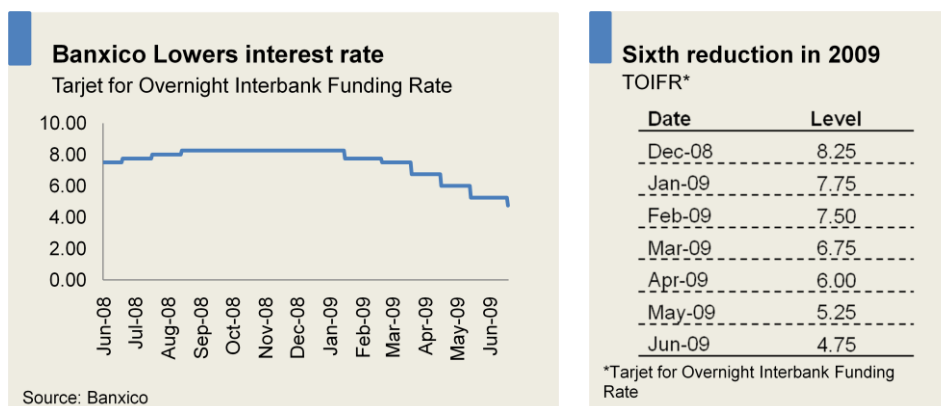


## Harbor Alert: Banxico cuts benchmark interest rate to 4.75%

Mexico's Central Bank (Banxico) announced on June 19 a 50 basis points (bps) reduction in its overnight interbank funding rate target lowering it to 4.75 percent. This represents a 350 bps reduction from its maximum fixed in August 08 and the sixth consecutive decrease since January 09. The target rate depicts Banxico's interest rate objective by which commercial banks in the country lend funds in the interbank market within 1 day period.



**HARBOR's perspective:** The impact in Mexican economic activity derived from the world crisis became evident during the first quarter of this year (8.2 GDP decrease). In addition, March's lower accumulated inflation (1.03% in 2009 vs 1.49% in 2008) strengthened Banxico's decision of boosting the economic activity by lowering its target for the overnight interbank funding rate by 150 bps within this same period. However, negative economic effects caused by the swine flu during April and May along with negative manufacture and construction figures, resulted in April's historical contraction of Mexican industrial production (-13.2%). This, coupled to a persistent negative economic outlook has encouraged Banxico to further cut the target rate by 200 bps during the last three months. Because of this, we estimate a 9.5 percent GDP decrease during this second quarter. However, we anticipate a slower decline in economic activity for the third and fourth quarters (-6.0% & -0.4% respectively), this way Mexico's GDP will end 2009 with an annual negative growth of 6.0 percent.