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**The opinions and points of view expressed are the responsibility of the author and do not necessarily represent the institutional position of Banco de México or its Governing Board.*

Summary of the results

- **Monetary Policy and the Short-Rate Disconnect in Emerging Economies (2024)** by *Pierre De Leo, Gita Gopinath, and Şebnem Kalemli-Özcan*

1. Empirical evidence of the short-rate disconnect in EMEs:

- Disconnect between policy rate (i^p) and the short-term market interest rates (i^m)

$$\downarrow \Delta Y \Rightarrow \downarrow i^p \text{ but } \uparrow i^m$$

2. The disconnect is accentuated due to spillover effects when there is a US monetary policy tightening:

$$\uparrow \hat{i}^{US} \Rightarrow \downarrow \Delta Y \Rightarrow \downarrow i^p \text{ but } \uparrow i^m \quad \text{(Rationale of the FED Taper Tantrum)}$$

$\uparrow E[\hat{i}^{US}]$

Tightening of global financial conditions

Summary of the results

- **Monetary Policy and the Short-Rate Disconnect in Emerging Economies (2024)** by *Pierre De Leo, Gita Gopinath, and Şebnem Kalemli-Özcan*

3. *Stronger disconnection from domestic monetary policy due to external capital flows, especially in countries where:*

- *Local bond market funding: domestic banks are important holders of local government bonds*
- *External Exposure: a higher share of foreign liabilities held by domestic banks*
- *Risk premia: large and volatile external funding premia*

$f(\text{high external exposure, high risk premia}): \downarrow \Delta Y \Rightarrow (i^m - i^p) \neq 0$ *Short-rate disconnect*

$f(\text{low external exposure, low risk premia}): \downarrow \Delta Y \Rightarrow (i^m - i^p) = 0$ *No disconnect*

Tracking the Behaviour of Policy Rates: The Mexican Case

① Policy Rule Parameters in Mexico Are Within the Range Observed in AEs and EMEs

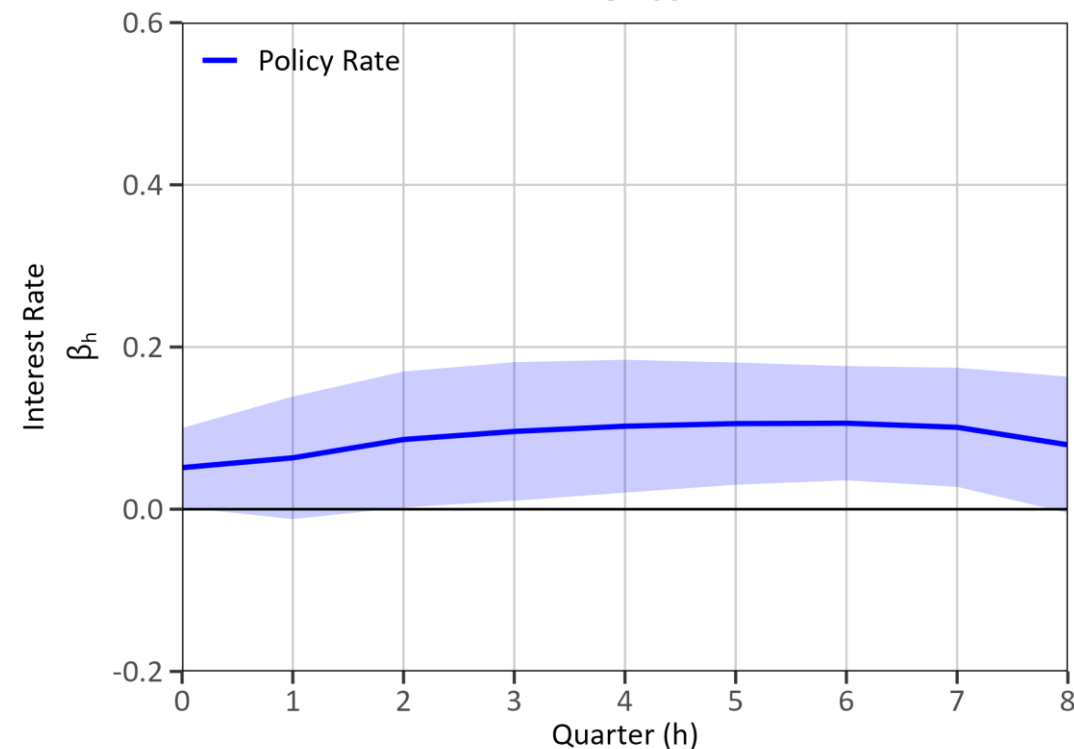
$$i_t^P = \rho i_{t-1}^P + (1 - \rho)(\phi_\pi \pi_t + \phi_y gap_t) + \varepsilon_t^P$$

Parameters	Emerging and Advanced economies <i>De Leo, Gopinath and Kalemli-Özcan (2025)</i>
ρ	≈ 0.8
ϕ_π	≈ 2.5
ϕ_y	≈ 0.4

② Local Projections IRFs

$$i_{t+h}^P = \alpha + \beta_h \Delta Y_t + \gamma_h i_{t-1}^P + \varepsilon_{t+h}^P$$

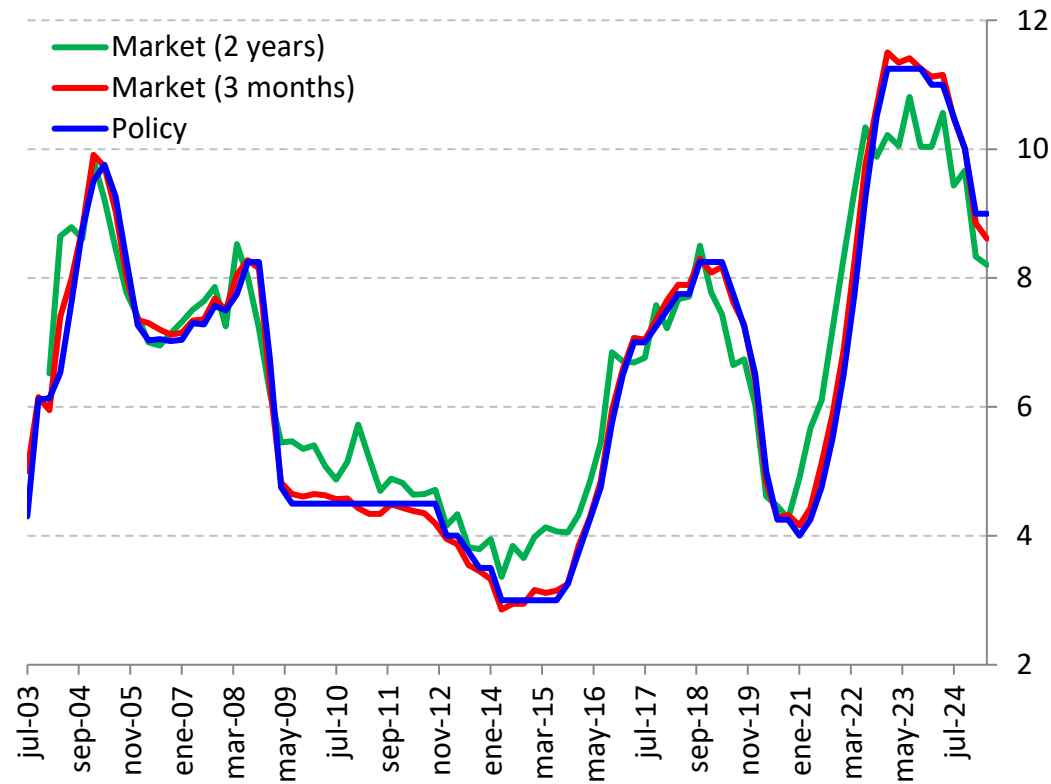
Mexico



Sources: author's calculations.
The local projections use quarterly data from Mexico from 2003Q4-2025Q1.

Tracking the Behaviour of Policy and Market Rates: The Mexican Case

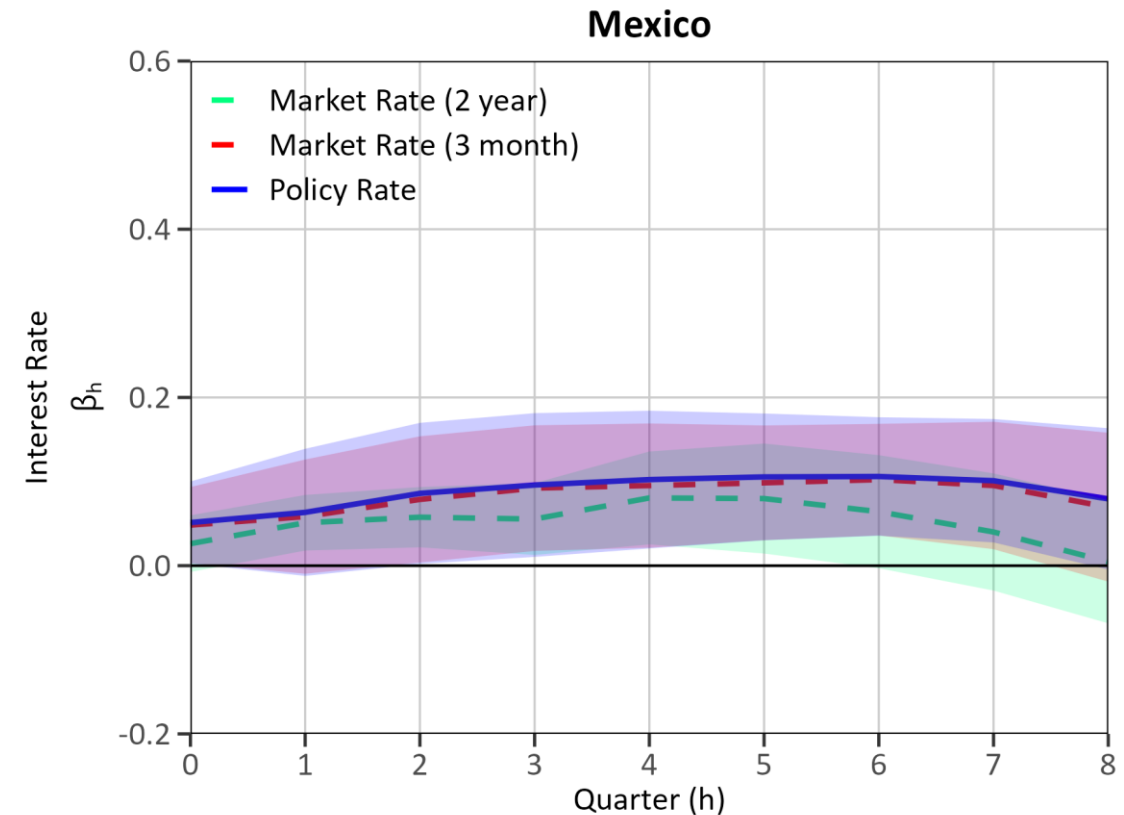
① Co-movement of Policy and Market Rates: 3-Month and 2-Year Maturities (Quarterly)



Sources: Banco de México and Proveedor Integral de Precios (PiP).

② Local Projections IRFs

$$i_{t+h} = \alpha + \beta_h \Delta Y_t + \gamma_h i_{t-1} + \varepsilon_{t+h}$$



Sources: author's calculations.

The local projections use quarterly data from Mexico from 2003Q4-2025Q1.

External Factors and the Behaviour of Policy and Market Rates

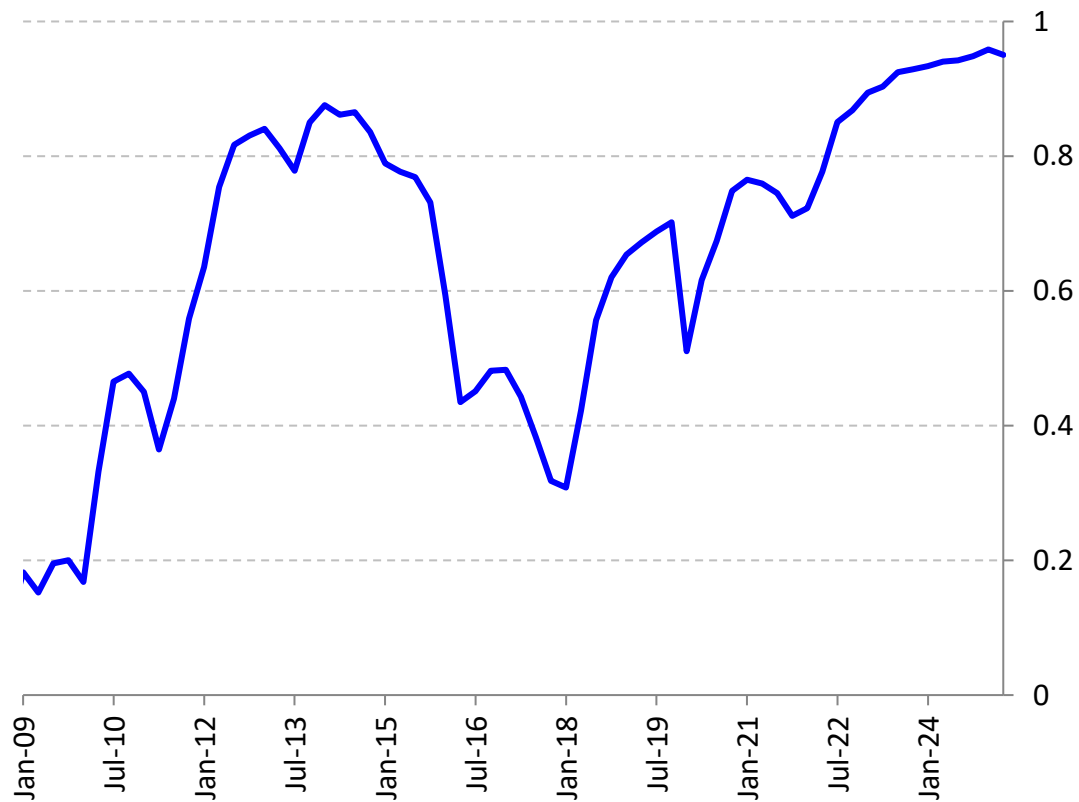
- *As already discussed, De Leo, Gopinath and Kalemli-Özcan (2025) show evidence that external conditions matter*
- *Results are consistent with empirical evidence shown in the paper:*

f(low external exposure, low risk premia): $\downarrow \Delta Y \Rightarrow (i^m - i^p) \approx 0$ No disconnect

	Median EME		Mexico
<i>Local currency bond market funding</i>	30 %	>	≈10 %
<i>External Exposure</i>	8.5%	>	7.2%
<i>Risk premia</i>	2.34%	>	1.87%

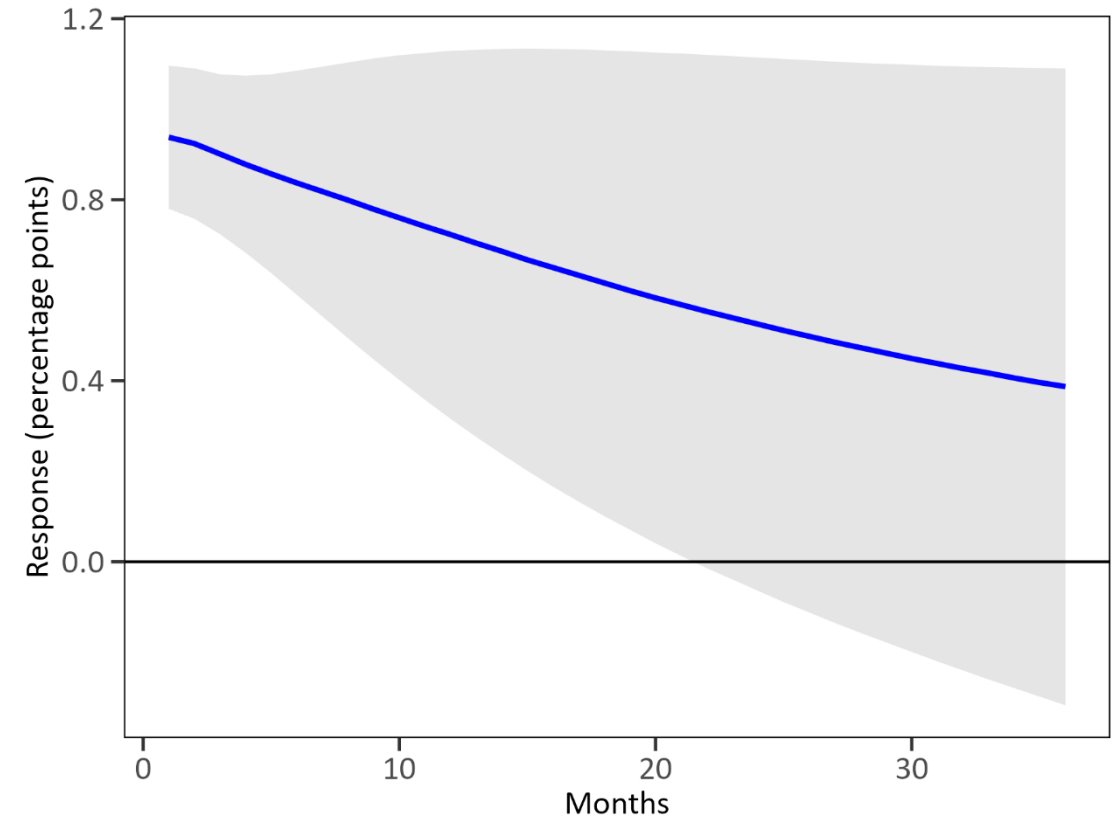
External Factors and the Dynamics of Long-Term Market Rates

Correlations between 10-Year government bond yields in Mexico and the United States
(Five-year rolling window)



Sources: Banco de México and Proveedor Integral de Precios (PiP) and U.S. Treasury

IRF of Mexico's 10-Year Interest Rate
(to 1 p.p. shock in the U.S. 10-Year Rate)



Sources: Banco de México, Quarterly Report July – September 2023, Box 8: Relationship Between Long-Term Interest Rates in Mexico and the United States, pp. 105–108.