

December 16, 2021

Press Release

Monetary Policy Statement

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Banco de México's Governing Board decided to increase the target for the overnight interbank interest rate by 50 basis points to 5.5%, effective December 17, 2021.

Available information shows that world economic growth has increased moderately during the fourth quarter, heterogeneously across countries depending on the evolution of the pandemic and the actions implemented by their public health, monetary and fiscal authorities. World inflation continued increasing due to pressures originated by bottlenecks in production, the reallocation of spending towards merchandise, the rise in food and energy prices, and the recovery of certain services. In the United States, the Federal Reserve announced an acceleration of the removal of monetary stimulus, doubling the pace of reduction of its net asset purchases, and outlining projections for the federal funds rate for 2022 and 2023 with higher increases than expected. Many emerging market economies intensified their respective reference rate increases. Among key global risks are those associated with the pandemic, inflationary pressures, and adjustments in monetary and financial conditions.

In domestic financial markets, the peso depreciated, while medium- and long-term interest rates increased influenced by external conditions. Information up to October shows a recovery of economic activity, after the contraction observed during the third quarter. An environment of uncertainty continues and slack conditions are anticipated, with significant differences across sectors.

Global and domestic inflationary pressures continue affecting annual headline and core inflation, which in November registered 7.37% and 5.67%, respectively. Headline and core inflation expectations for 2021, 2022, and for the next 12 months, increased again, as well as medium-term expectations, while those for longer terms have remained stable at levels above the target.

Headline and core inflation forecasts were once again revised upwards, especially for 2022 (see table). Their annual variations are expected to decrease to a larger extent after one year, and converge to the 3% target by the end of the forecast horizon. These projections are subject to risks. On the upside: i) external inflationary pressures; ii) cost-related pressures; iii) core inflation persistence at high levels; iv) exchange rate depreciation; and v) increases in agricultural and livestock product prices and in energy prices. On the downside: i) a widening of the negative output gap; ii) social distancing measures; and iii) exchange rate appreciation. The balance of risks for the trajectory of inflation within the forecast horizon deteriorated further and remains biased to the upside.

The Governing Board evaluated the magnitude and diversity of the shocks that have affected inflation and the factors that determine it, along with the risk of price formation becoming contaminated, and the challenges posed by the ongoing tightening of monetary and financial global conditions. Based on these considerations, on this occasion, the Board decided to increase the target for the overnight interbank

interest rate by 50 basis points to 5.5%. With this action, the monetary policy stance adjusts to the trajectory required for inflation to converge to its 3% target within the forecast horizon

For the next monetary policy decisions, the Board will monitor thoroughly the behavior of inflationary pressures as well as of all factors that have an incidence on the foreseen path for inflation and its expectations. The latter, in order to determine a policy rate that is consistent at all times with the trajectory needed to facilitate the orderly and sustained convergence of headline inflation to the 3% target within the time frame in which monetary policy operates as well as an adequate adjustment of the economy and financial markets.

Voting in favor of the decision were Alejandro Díaz de León, Galia Borja, Irene Espinosa, and Jonathan Heath. Voting in favor of increasing the target for the overnight interbank interest rate by 25 basis points to 5.25% was Gerardo Esquivel.

Forecasts for Headline and Core Inflation
Annual percentage change of quarterly average indices

	2021				2022				2023			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
CPI												
Current (December 16, 2021) ^{1/}	4.0	6.0	5.8	7.1	6.7	5.1	4.3	3.5	3.3	3.2	3.1	3.0
Previous (November 11, 2021) ^{2/}	4.0	6.0	5.8	6.8	6.3	4.8	3.9	3.3	3.2	3.2	3.1	
Core												
Current (December 16, 2021) ^{1/}	3.9	4.4	4.8	5.6	6.2	5.8	4.9	4.1	3.3	2.9	2.8	2.7
Previous (November 11, 2021) ^{2/}	3.9	4.4	4.8	5.5	5.8	5.3	4.3	3.5	3.0	2.7	2.6	
Memo												
Annualized seasonally adjusted quarterly variation in percent^{3/}												
Current - CPI ^{1/}	5.7	9.3	6.3	7.0	4.1	2.9	3.2	3.9	3.1	2.4	3.0	3.4
Current - Core ^{1/}	3.9	5.6	6.6	6.3	6.2	4.1	3.1	3.2	2.8	2.6	2.5	2.7

1/ Observed figures up to November 2021 and forecast starting December 2021.

2/ Forecast starting November 2021. See press release of November 11, 2021. Forecast presented in the Quarterly Report July-September 2021.

3/ See [methodological note](#) on the seasonal adjustment process.

Source: INEGI for observed figures and Banco de México for seasonally adjusted figures and forecast.

Note: Shaded areas correspond to observed figures.