

September 30, 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 25 basis points to 4.75%, effective October 1, 2021.

Global economic activity continued to recover, although at a slower pace and heterogeneously across countries, associated with vaccine availability, the evolution of the pandemic, and spending programs. Global inflation continued increasing due to pressures on commodity prices, base effects, bottlenecks in production, and to stimulus spending and its recomposition towards merchandise. The central banks of the main advanced economies have maintained the monetary accommodation, although some of them are already expecting to diminish it, while those of several emerging economies continue reducing it. Among key global risks are those associated with the pandemic, inflationary pressures, and adjustments in monetary and financial conditions.

In domestic financial markets, the volatility of the peso exchange rate and interest rates have increased. The recovery of the Mexican economy continued during the third quarter and is expected to endure for the rest of the year and 2022. Uncertainty about the pandemic persists and slack conditions are anticipated, with significant differences across sectors.

Global inflationary pressures and bottlenecks in production continue affecting headline and core inflation, which during the first fortnight of September registered annual variations of 5.87% and 4.92%, respectively. Headline and core inflation expectations for 2021 increased again, those for the next 12 months and for 2022 also rose, while those for longer terms have remained stable at levels above the target.

Headline and core inflation forecasts were revised upwards compared to those previously released (see table). Considering the nature of the shocks that have affected them, the larger increases correspond to the short term. Annual headline and core inflation projections are expected to decrease, particularly for one year and beyond, and to converge to the 3% target by the end of the forecast horizon. These forecasts are subject to risks. On the upside: i) external inflationary pressures; ii) cost-related pressures; iii) core inflation persistence; iv) exchange rate depreciation; and v) increases in agricultural and livestock product prices. On the downside: i) a widening of the negative output gap; ii) additional social distancing; and iii) exchange rate appreciation. The balance of risks for the trajectory of inflation within the forecast horizon is biased to the upside.

Although the shocks that have increased inflation are expected to be transitory, due to their variety, magnitude, and the extended horizon over which they have affected it, they may pose risks to the price formation process and to inflation expectations. In order to avoid such risks, it was deemed necessary to reinforce the monetary policy stance by adjusting it to the trajectory required for inflation to converge to

its 3% target within the forecast horizon. The Governing Board decided to increase the target for the overnight interbank interest rate by 25 basis points to 4.75%.

For the next monetary policy decisions, the Governing Board will assess the factors that have an incidence on the foreseen trajectory for inflation and its expectations, in order for the policy rate to be consistent at all times with the orderly and sustained convergence of headline inflation to the 3% target within the time frame in which monetary policy operates, enabling an adequate adjustment of the economy and financial markets.

Voting in favor of the decision were Alejandro Díaz de León, Irene Espinosa, Galia Borja and Jonathan Heath. Voting in favor of leaving the target for the overnight interbank interest rate unchanged at 4.50% was Gerardo Esquivel.

Forecasts for Headline and Core Inflation

Annual percentage change

	2021				2022				2023			
	I	II	III	IV	I	II	III	IV	I	II	III	
CPI												
Current (09/30/2021)^{1/}	4.0	6.0	5.8	6.2	5.6	4.3	3.5	3.4	3.3	3.2	3.1	
Previous (08/31/2021)^{2/}	4.0	6.0	5.6	5.7	5.2	3.9	3.2	3.4	3.1	3.1		
Core												
Current (09/30/2021)^{1/}	3.9	4.4	4.8	5.3	5.4	4.8	4.0	3.4	3.1	2.9	2.8	
Previous (08/31/2021)^{2/}	3.9	4.4	4.7	5.0	5.1	4.4	3.6	3.3	3.1	3.0		

1/ /Forecasts as of September 2021.

2/ Forecast as of August 2021. Quarterly Report April - June 2021.

Source: INEGI for observed figures and Banco de México for forecasts.

Note: Shaded areas correspond to observed figures.