

June 23, 2022

Press Release

Monetary Policy Statement

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Banco de México's Governing Board decided to raise the target for the overnight interbank interest rate by 75 basis points to 7.75%, effective June 24, 2022.

Available indicators suggest that global economic activity slowed down during the second quarter of 2022. World inflation continued increasing, in some cases reaching levels unseen in decades, as a result of pressures originated by the persistent bottlenecks in production, the recovery of demand, and the high levels of food and energy prices. This environment continues generating expectations of a faster withdrawal of monetary stimulus worldwide. Financial conditions tightened further, with an increase in interest rates and a stronger US dollar, in a context of risk aversion. In its latest monetary policy decision, the Federal Reserve raised the target range for the federal funds rate by 75 basis points and anticipated future adjustments. Similarly, a large number of other central banks have continued raising their reference rates. Among key global risks are those associated with the pandemic, inflationary pressures lasting longer, the intensification of geopolitical turmoil, and greater adjustments in economic, monetary and financial conditions.

In domestic financial markets, the peso behaved orderly, while short- and long-term term interest rates increased. Economic activity is expected to continue recovering gradually during the second quarter of 2022. Nevertheless, an environment of uncertainty prevails, with slack conditions that are foreseen to continue decreasing gradually.

In addition to the inflationary shocks stemming from the pandemic, there are pressures associated with the geopolitical conflict and the strict lockdown measures imposed by China. Thus, in the first half of June, headline and core inflation registered annual variations of 7.88% and 7.47%, respectively, remaining at elevated levels unseen in two decades. Their expectations for 2022 and 2023 increased significantly once again. Medium- and long-term expectations for headline inflation were revised slightly upwards and those for core inflation remained stable, although at levels above the target.

In view of greater-than-anticipated pressures on inflation, the forecast for headline inflation was revised upwards up to the third quarter of 2023, while that for core inflation was also adjusted to the upside for the entire horizon, although convergence to the 3% target in the first quarter of 2024 is maintained (see table). These projections are subject to risks. On the upside: i) persistence of core inflation at high levels; ii) external inflationary pressures associated with the pandemic; iii) greater pressures on agricultural and livestock product prices and on energy prices due to the ongoing geopolitical conflict; iv) exchange rate depreciation; and v) cost-related pressures. On the downside: i) a decline in the intensity of the geopolitical conflict; ii) a better functioning of supply chains; iii) a greater-than-expected effect from the negative output gap; and iv) a larger-than-anticipated effect from the Policy Program to Fight Inflation

and High Prices. The balance of risks for the trajectory of inflation within the forecast horizon is biased significantly to the upside.

The Governing Board evaluated the magnitude and diversity of the shocks that have affected inflation and its determinants, along with the risk of contamination of medium- and long-term inflation expectations and of the price formation process. It also considered the increasing challenges for monetary policy stemming from the ongoing tightening of global financial conditions, the environment of significant uncertainty, and inflationary pressures associated with the geopolitical conflict and with the resurgence of COVID-19 cases in China, as well as the possibility of greater effects on inflation. Based on these considerations, and with the presence of all its members, the Board decided unanimously to raise the target for the overnight interbank interest rate, on this occasion, by 75 basis points to 7.75%. With this action, the monetary policy stance adjusts to the trajectory required for inflation to converge to its 3% target within the forecast horizon.

The Board will monitor thoroughly inflationary pressures as well as all factors that have an incidence on the foreseen path for inflation and its expectations. This, in order to set 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. For the next policy decisions, the Board intends to continue raising the reference rate and will evaluate taking the same forceful measures if conditions so require.

Forecasts for Headline and Core Inflation

Annual percentage change of quarterly average indices

	2021				2022				2023			2024	
	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
Headline (CPI)													
Current (06/23/2022) ^{1/}	6.0	5.8	7.0	7.3	7.8	8.1	7.5	6.5	4.4	3.5	3.2	3.1	3.1
Previous (05/12/2022) ^{2/}	6.0	5.8	7.0	7.3	7.6	7.0	6.4	5.3	3.5	3.2	3.2	3.1	
Core													
Current (06/23/2022) ^{1/}	4.4	4.8	5.6	6.5	7.3	7.4	6.8	5.7	4.3	3.5	3.2	3.1	3.1
Previous (05/12/2022) ^{2/}	4.4	4.8	5.6	6.5	7.2	6.6	5.9	4.8	3.6	3.3	3.1	3.0	
Memo													
Annualized seasonally adjusted quarterly variation in percent^{3/}													
Current - Headline ^{1/}	8.6	5.9	7.3	7.4	10.5	7.2	5.0	3.4	2.2	3.4	3.9	3.1	2.3
Current - Core ^{1/}	5.2	6.0	6.9	8.0	8.4	6.4	4.6	3.6	2.7	3.2	3.3	3.1	2.7

1/ Forecast starting June 2022.

2/ Forecast starting May 2022. See monetary policy statement of May 12, 2022. Forecast presented in the Quarterly Report January-March 2022.

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

Source: INEGI for observed annual variation figures and Banco de México for seasonally adjusted figures and forecasts.

Note: Shaded areas correspond to observed figures.