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Press Release

Monetary Policy Statement

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Banco de México's Governing Board decided to maintain the target for the overnight interbank interest rate at 4.00%.

Global economic activity continues to recover heterogeneously across countries associated with vaccine availability and the amount of stimulus spending. Financial markets exhibited a more stable behavior. Global inflation increased, reflecting recent pressures from commodity prices, especially energy-related, as well as from comparison-base effects and some cost-related pressures. In most advanced economies, headline and core inflation remain at low levels and their central banks reiterated that they will maintain accommodative monetary policy stances. Among the most relevant global risks are those associated with the pandemic and a greater-than-expected increase in inflation.

Since the last monetary policy decision, the Mexican peso appreciated slightly, shorter-term interest rates increased and longer-term ones fluctuated in a narrow range. Although the economic recovery slowed during the first quarter, higher growth is expected for the rest of the year, with a more equilibrated balance of risks. Nevertheless, ample slack conditions are foreseen for the economy as a whole, with significant differences across sectors.

Annual headline inflation was affected by the abovementioned factors and increased more than anticipated, reaching 6.08% in April, while core inflation and non-core inflation registered 4.13% and 12.34%, respectively. Inflation expectations for 2021 rose and those for the medium and long terms remained stable at levels above the 3% target.

The revised forecasts for headline and core inflation display short-term levels above those published in the last Quarterly Report. Nevertheless, both are still expected to converge to the 3% target starting in the second quarter of 2022. These forecasts are subject to risks. On the upside: i) external inflationary pressures; ii) cost-related pressures or a reallocation of spending; iii) persistence of core inflation; and iv) exchange rate depreciation. On the downside: i) effects stemming from the negative output gap; ii) greater social distancing measures; and iii) foreign exchange appreciation. The balance of risks that might affect the anticipated path for inflation within the forecast horizon is biased to the upside.

In a highly uncertain environment, the risks for inflation, economic activity and financial markets pose major challenges for monetary policy. Given the recent shocks that have affected inflation, it is necessary for the adjustment in relative prices to take place in an orderly manner so that an impact on price formation and inflation expectations is avoided. With the presence of all its members, the Governing Board decided unanimously to maintain the target for the overnight interbank interest rate at 4.00%. This, considering the abovementioned inflation forecasts, the risks they are subject to, as well as the need to consolidate a downward trajectory for headline and core inflation to the 3% target. Looking ahead,

monetary policy implementation will depend on the evolution of the factors that have an incidence on inflation, on its foreseen trajectories within the forecast horizon, and on its expectations.

The Governing Board will take the necessary actions based on incoming information in order for the policy rate to be consistent with the orderly and sustained convergence of headline inflation to the 3% target within the time frame in which monetary policy operates. It is necessary to safeguard the institutional framework, strengthen the macroeconomic fundamentals and adopt the necessary actions on both monetary and fiscal policy fronts, to enable a better adjustment of domestic financial markets and of the economy as a whole.