

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 continued to recover heterogeneously across countries and sectors. Financial markets exhibited volatility and US medium- and long-term interest rates increased in response to the large fiscal stimulus package approved and expectations of higher growth. Inflation in advanced economies increased recently, although it remains below the targets of their central banks, which reiterated that they will maintain accommodative monetary policy stances. Among the most relevant global risks are the pandemic, delays in the vaccination programs, and a greater tightening of financing conditions.

Since the last monetary policy decision, the Mexican peso depreciated and medium- and long-term interest rates increased. Mexico's economic activity decelerated in January and February and, although a greater boost from external demand is foreseen, ample slack conditions are expected throughout the forecast horizon.

Annual headline inflation increased from 3.54% in January to 4.12% during the first fortnight of March and core inflation rose from 3.84% to 4.09% during the same period. Headline inflation expectations for the end of 2021 were adjusted upwards and those for the medium and long terms remained stable at levels above the 3% target.

The anticipated paths for headline and core inflation in the short term are slightly above those foreseen in the last Quarterly Report, although they are still expected to converge to the 3% target as of the second quarter of 2022. Over the next months, headline inflation will be temporarily affected by the arithmetic effects generated by last year's fall in energy prices. These forecasts are subject to risks. On the upside: i) a recomposition of spending towards merchandise or cost-related pressures; ii) episodes of exchange rate depreciation; and iii) external inflationary pressures. On the downside: i) effects stemming from the negative output gap; ii) greater social distancing measures; and iii) foreign exchange appreciation.

In a highly uncertain environment, the risks for inflation, economic activity and financial markets pose major challenges for monetary policy. It is necessary to enable an orderly adjustment of financial conditions and a change in relative prices, without affecting price formation and inflation expectations. 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, 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%. 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.