

Press Release

Monetary Policy Statement

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Banco de México's Governing Board decides to maintain the target for the overnight interbank interest rate at a level of 7.50%.

During the first quarter of 2018, the world economy kept growing in a generalized manner, although it moderated its pace. The reduction of slack in advanced economies has started to be reflected in several of them in gradual increases in both inflation and inflation expectations. The U.S. is expected to exhibit a strong economic growth in the following quarters. As was to be expected, in its FOMC meeting of May, the Federal Reserve left the target range for the federal funds rate unchanged, reasserting its expectation of a gradual pace of increases in the target range for the federal funds rate, and stating that inflation will run near its symmetric 2% target. U.S. interest rates have also increased, especially those for the short-term, while the dollar strengthened in a generalized manner. Growth forecasts for the world economy for 2018 and 2019 remain unchanged as compared with those published at the beginning of the year. Nevertheless, several downside risks prevail, particularly for the medium and long term, including conditions of higher volatility in international financial markets due to the presence of greater-than-expected inflationary pressures, the escalation of protectionist trade measures, and the materialization of certain geopolitical events. In this context, most emerging economies' currencies depreciated considerably and presented an increase in their volatility. In the case of Mexico, the peso's weakening was also affected by domestic factors. In turn, interest rates rose, especially for the longest tenors.

Available information suggests that, during the first quarter of 2018, economic activity in Mexico continued recovering, at a rate higher than that observed in the previous quarter. Exports maintained an upward trend, private consumption continued growing —although at a slower pace— while investment rose. As for the economy's cyclical position, slack conditions remained tight. Although most recent data reveal a greater dynamism in economic activity, the balance of risks for growth continues biased downwards due to the uncertainty that still prevails in the economy.

Banco de México's monetary policy stance, adopted to keep medium- and long-term inflation expectations anchored, together with both the fulfillment of the fiscal objectives and the financial system's resilience, have contributed to place the Mexican economy in a better position to cope with possible adverse events. In the months ahead, the economy is expected to continue facing a complex environment, both in the external and domestic fronts. For this reason, it is particularly relevant that besides following a prudent and robust monetary policy, measures to foster greater productivity must also be adopted, as well as a sustainable consolidation of the public finances.

Annual headline inflation continued to decrease, from 5.04% in March to 4.55% in April, with reductions in both its core and non-core components. During this period, core inflation diminished from 4.02% to 3.71% as a result of monetary policy actions and the fading of shocks that had an adverse effect on it last year. Non-core inflation dropped from 8.03% to 7.07% during the same period, mostly due to reductions in the prices of fruits, vegetables, and LP gas, which were partly offset by increases in gasoline prices. Headline inflation expectations for the end of 2018 decreased from 4.09% in March to 3.98% in April, while medium- and long-term inflation expectations remained around 3.50%.

The decline in inflation during the first four months of 2018 is consistent with the forecasts presented by Banco de México in its October-December 2017 Quarterly Report. Looking ahead, on the basis of available information and considering the current monetary policy stance and the horizon in which it operates, inflation is expected to be in line with those forecasts. These projections consider an orderly behavior of the exchange rate, the absence of labor market pressures, and a continuing downward trend in non-core inflation for the rest of 2018 at the foreseen pace.

The aforementioned scenario is subject to risks and to a high degree of uncertainty. Among the upside risks for inflation are that the peso exchange rate continues to be under pressure due to an environment of higher external interest rates and U.S. dollar strength, and uncertainty associated with both the NAFTA renegotiation and Mexico's elections. In the event of a scenario in which the real exchange rate would need to adjust, Banco de México will make sure it is done in an orderly manner, and with no second-round effects on the economy's price formation process. The risk of additional shocks in agricultural product prices and upward pressures in the prices of certain energy goods prevails. Given the economy's cyclical conditions, unit labor costs could lead to upward inflationary pressures as well. As for downside risks, the possibility of the peso appreciating if NAFTA negotiations are favorable must be highlighted. In the presence of a highly uncertain environment, the balance of risks for inflation in relation to its expected path remains biased upwards.

To guide its monetary policy actions, Banco de México's Governing Board closely follows the development of inflation vis-à-vis its anticipated trajectory, taking into account the monetary policy stance adopted and the horizon in which monetary policy operates, as well as available information on all inflation determinants and on medium- and long-term inflation expectations, including the balance of risks to such factors. Considering the latest information on these elements and that the current monetary policy stance is consistent with annual headline inflation following a downward trend to its target, Banco de México's Governing Board voted unanimously to maintain the target for the overnight interbank interest rate at a level of 7.50%.

Looking ahead, the Governing Board will maintain a prudent monetary policy stance and will continue following closely the potential pass-through of exchange rate fluctuations on prices, the monetary policy stance relative to that of the U.S., and the conditions of slack in the Mexican economy. In the presence of factors that, by their nature, may involve risks to both inflation and inflation expectations, monetary policy will be conducted in a timely and firm manner to attain the convergence of inflation to its 3% target and to strengthen the anchoring of medium- and long-term inflation expectations.