

November 12, 2020

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 4.25%, effective November 13, 2020.

Global economic activity has been recovering, although heterogeneously among countries and sectors and at a slower pace than that observed between May and June. Inflation in advanced economies remains below the targets of their central banks, which have reiterated their intention to maintain accommodative monetary policy stances for an extended period. The world economy and international financial markets are subject to several risks, among which are the evolution of the pandemic, the sufficiency of fiscal stimuli to support the recovery, trade tensions, and the worsening of social and geopolitical conflicts.

Since the last monetary policy decision, the Mexican peso exhibited volatility and appreciated, while interest rates registered moderate adjustments: short term to the downside, and long term to the upside. The latest information suggests that after having contracted markedly during the second quarter, economic activity in Mexico started to recover during the third, although it remains below the levels prior to the pandemic in an environment of uncertainty and downward risks. Ample slack conditions are expected throughout the time frame in which monetary policy operates.

Annual headline inflation rose from 4.01% to 4.09% between September and October 2020, reflecting an increase in its non-core component, especially in the annual rates of change of fruits and vegetable prices. Core inflation was 3.98% in October and its recomposition continues, with increases in merchandises and reductions in services. Headline inflation expectations for the end of 2020 rose, while those for the medium and long terms remained stable at levels above the 3% target.

The challenges for monetary policy posed by the pandemic include both the significant impact on economic activity as well as a financial shock and their effects on inflation. The recent behavior of headline and core inflation, and of the factors that affect them, imply a slight increase in the foreseen trajectories within the forecast horizon, although those for the next 12-24 months are expected to be around 3%. These forecasts are subject to short and medium term risks. To the downside: i) a greater-than-expected effect due to the negative output gap; ii) lower inflationary pressures worldwide; and, iii) greater social distancing measures that lower the demand for goods and services. To the upside: i) episodes of foreign exchange depreciation; ii) persistence of core inflation at high levels; and, iii) logistical problems and higher costs associated with the sanitary measures. The balance of risks for the projected trajectory of inflation described above is uncertain.

The risks for inflation, economic activity and financial markets pose major challenges for monetary policy and for the economy in general. Considering the mentioned forecasts for inflation and the convenience of consolidating a downward path for headline and core inflation towards the 3% target, with the presence of all its members, Banco de México's Governing Board decided by majority to maintain the target for the

overnight interbank interest rate at 4.25%. One member voted for lowering the policy rate to a level of 4.00%. This pause provides the necessary room to confirm that the trajectory of inflation converges to the target. Looking ahead, monetary policy implementation will depend on the evolution of the factors that have an incidence on headline and core inflation, on their foreseen trajectories within the forecast horizon, and on their expectations.

The Governing Board will take the necessary actions on the basis of incoming information in order for the policy rate to be consistent with the orderly and sustained convergence of headline inflation to Banco de México's target within the time frame in which monetary policy operates. Perseverance in strengthening the macroeconomic fundamentals and adopting the necessary actions regarding both monetary and fiscal policies will contribute to a better adjustment of domestic financial markets and of the economy as a whole.