

## Press Release

**Monetary Policy Statement**

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**Banco de México's Governing Board decided to lower the target for the overnight interbank interest rate by 25 basis points to 4.25%, effective September 25, 2020.**

Global economic activity has been recovering, while inflation in advanced economies remains below their central banks' targets. Monetary policy is expected to remain accommodative in those economies for an extended period. Particularly relevant is the announcement by the US Federal Reserve of a new monetary policy strategy that will maintain the monetary stimulus until inflation is moderately above its 2% target. The world economy and international financial markets are subject to several risks, among which are those associated with the pandemic.

Since the last monetary policy decision, the Mexican peso appreciated slightly, although it has recently been subject to episodes of high volatility, while short-term interest rates decreased and long-term ones exhibited minor adjustments. After having contracted markedly in April and May, economic activity in Mexico began to recover in June and July, although an environment of uncertainty and downward risks prevails. Ample slack conditions are expected throughout the time frame in which monetary policy operates.

Annual headline inflation rose from 3.62% to 4.10% between July and the first fortnight of September 2020, due to increases in both its non-core and core components. Energy prices increased slightly while there was a recomposition of core inflation, with services inflation remaining low and merchandise inflation increasing. 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. Although the recent increases in headline and core inflation affect their foreseen trajectories in the short term, both are expected to be around 3% within the 12-24 month forecast horizon. These forecasts are subject to considerable risks in the short and medium terms. To the downside: i) a greater than expected impact of the widening of the negative output gap; ii) downward inflationary pressures worldwide; and iii) social distancing measures reducing the demand for certain services. To the upside: i) additional episodes of foreign exchange depreciation; ii) a high persistence of core inflation; and iii) logistical problems and higher costs associated with the sanitary measures. The balance of risks for the projected trajectory of inflation remains uncertain.

Taking into account the referred risks for inflation, economic activity and financial markets, major challenges arise for monetary policy and for the economy in general. Based on the foreseen scenarios for inflation and considering the room for maneuver, although narrow, that on balance these provide to monetary policy, with the presence of all members, Banco de México's Governing Board decided unanimously to lower the target for the overnight interbank interest rate by 25 basis points to a level of

4.25%. Monetary policy implementation will depend on the evolution of the factors that have an incidence on the outlook for inflation and its expectations, including the effects that the pandemic might have on both of them.

The Governing Board will take the necessary actions on the basis of incoming information and considering the large impact on productive activity as well as the evolution of the financial shock that we are currently facing. The latter 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.