

May 18, 2023

Press Release

Monetary Policy Statement

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Banco de México's Governing Board decided to leave the target for the overnight interbank interest rate unchanged at 11.25%.

Headline inflation continued decreasing in most economies. Nevertheless, it still remains at high levels. The core component has shown a resistance to decline. International financial markets have stabilized after the turbulence generated by the banking industry's events in previous months, although risks persist. Several central banks have stopped raising their reference rates. World growth prospects for 2023 continue implying a deceleration. Among key global risks are persistent inflationary pressures, the intensification of geopolitical turmoil, tighter financial conditions, and the challenges to financial stability.

Since the previous monetary policy decision, short-term interest rates in Mexico increased while medium- and long-term ones decreased. The Mexican peso appreciated. Economic activity has remained resilient in a complex external environment and, during the first quarter of 2023, it registered an increase in its rate of expansion. The labor market remains strong.

Since the last monetary policy meeting, annual headline inflation continued decreasing. Moreover, in its last readings, core inflation decreased more markedly than in previous months. Both of them, however, remain at high levels, registering 6.25% and 7.67%, respectively, in April. Inflation expectations for 2023 decreased while those for longer terms remained relatively stable at levels above target.

Forecasts for headline inflation were revised marginally downwards for some quarters, while those for core inflation remained practically unchanged. Inflation is still projected to converge to the 3% target in the fourth quarter of 2024 (see table). These projections are subject to risks. On the upside: i) persistence of core inflation at high levels; ii) foreign exchange depreciation due to volatility in international financial markets; iii) greater cost-related pressures, and iv) pressures on energy prices or on agricultural and livestock product prices. On the downside: i) a greater-than-anticipated slowdown of the world economy; ii) a lower pass-through effect from some cost-related pressures; iii) a better functioning of production and distribution chains; and, iv) a larger-than-anticipated effect from the Federal Government's measures to fight elevated prices. The balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside.

The Governing Board evaluated the magnitude and diversity of the inflationary shocks and their determinants, along with the evolution of medium- and long-term inflation expectations and the price formation process. It considered that the economy has started to undergo a disinflationary process given that many pressures have eased. Nevertheless, it deemed that these pressures continue having an incidence on inflation, as it remains high and the inflationary outlook is still very complex. Based on the above, and considering the monetary policy stance already attained in this hiking cycle, with the presence of all its members, the Board decided unanimously to leave the target for the overnight interbank interest

rate unchanged at 11.25%. With this decision, the monetary policy stance remains in the trajectory required for inflation to converge to its 3% target within the forecast horizon.

The Board will thoroughly monitor inflationary pressures as well as all factors that have an incidence on the foreseen path for inflation and its expectations. It estimates that the inflationary outlook will be complicated and uncertain throughout the entire forecast horizon, with upward risks. Thus, in order to achieve an orderly and sustained convergence of headline inflation to the 3% target, it considers that it will be necessary to maintain the reference rate at its current level for an extended period. The central bank reaffirms its commitment with its primary mandate and the need to continue its efforts to consolidate an environment of low and stable inflation.

Forecasts for Headline and Core Inflation
Annual percentage change of quarterly average indices

	2022				2023				2024				2025
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Headline (CPI)													
Current (05/18/2023) ^{1/}	7.3	7.8	8.5	8.0	7.5	6.0	5.2	4.7	4.2	3.7	3.4	3.1	3.1
Previous (03/30/2023) ^{2/}	7.3	7.8	8.5	8.0	7.5	6.3	5.3	4.8	4.2	3.7	3.4	3.1	3.1
Core													
Current (05/18/2023) ^{1/}	6.5	7.3	8.0	8.4	8.3	7.4	6.2	5.0	4.1	3.5	3.2	3.1	3.1
Previous (03/30/2023) ^{2/}	6.5	7.3	8.0	8.4	8.3	7.5	6.2	5.0	4.1	3.5	3.2	3.1	3.1
Memo													
Annualized seasonally adjusted quartely variation in percent^{3/}													
Current - Headline ^{1/}	7.4	10.3	8.2	6.1	5.4	4.3	4.9	4.2	3.3	2.6	3.2	3.2	3.4
Current - Core ^{1/}	7.7	8.7	8.9	8.5	7.0	5.3	4.2	3.6	3.4	3.0	2.8	3.1	3.3

1/ Forecast starting May 2023.

2/ Forecast starting March 2023. See monetary policy statement of March 30, 2023.

3/ See [methodological note](#) on the seasonal adjustment process.

Source: INEGI for observed annual variation figures and Banco de México for seasonally adjusted figures and forecasts.

Note: Shaded areas correspond to observed figures.