

August 8, 2024

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 10.75%, effective August 9, 2024.

The dynamism of economic activity is expected to have remained heterogeneous across countries during the second quarter of 2024. The US economy continued growing at a higher rate than other advanced economies. In most of these economies, headline and core inflation continued decreasing. Among central banks of advanced economies, some cut their reference rates, while the Federal Reserve left its rate unchanged and the Bank of Japan raised it. The latter, together with the lesser dynamism of the labor market in the United States, contributed to the volatility in international financial markets. Among key global risks are the intensification of geopolitical turmoil, the protraction of inflationary pressures, greater volatility in international financial markets, and, to a lesser extent, the challenges to financial stability.

Mexican financial markets were affected by the volatility in international financial markets. The Mexican peso depreciated. The yield curve for government bonds decreased, especially for the medium term. During the second quarter, Mexico's economic activity grew at a low rate, thus prolonging the weakness that has been observed since the end of 2023. The balance of risks to growth of economic activity remains biased to the downside.

Annual headline inflation rose to 5.57% in July, as a result of a significant increase in the non-core component, which is more volatile. Core inflation, which better reflects the inflation trend, accumulated eighteen consecutive months of reductions, registering 4.05%. Its incidence on annual headline inflation went from a peak value of 6.32 percentage points in November 2022 to 3.07 percentage points in July 2024. Consequently, expectations for headline inflation for the end of 2024 were revised upwards. In contrast, those for core inflation decreased. Those for longer terms remained relatively stable at levels above target.

In view of the supply shocks that have affected non-core inflation, the forecasts for headline inflation were revised upwards for the short term. Meanwhile, annualized seasonally adjusted core inflation is anticipated to be 3.7% in the third quarter of 2024. Headline inflation is still expected to converge to the target in the fourth quarter of 2025 (see table). These projections are subject to risks. On the upside: i) persistence of core inflation; ii) greater foreign exchange depreciation; iii) greater cost-related pressures; iv) climate-related impacts, and v) the intensification of geopolitical conflicts. On the downside: i) lower-than-anticipated economic activity; ii) a lower pass-through effect from some cost-related pressures, and iii) a lower-than-anticipated effect of the peso's depreciation on inflation. The balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside.

The Governing Board assessed the behavior of inflation and its determinants, as well as of inflation expectations. It considered the nature of the shocks that have affected the non-core component and the projection that their effects on headline inflation will dissipate over the next quarters. It took into account

core inflation's trajectory and the fact that it is anticipated to continue decreasing. It estimated that, although the outlook for inflation still calls for a restrictive monetary policy stance, its evolution implies that it is adequate to reduce the level of monetary restriction. Thus, with the presence of all its members, the Board decided by majority to lower the target for the overnight interbank interest rate by 25 basis points to 10.75%.

Looking ahead, the Board foresees that the inflationary environment may allow for discussing reference rate adjustments. It will consider that global shocks will continue fading and the effects of the weakness in economic activity. It will take into account the incidence of the monetary policy stance that has been maintained and that prevailing in the future on the evolution of inflation throughout the horizon in which monetary policy operates. Actions will be implemented in such a way that the reference rate remains consistent at all times with the trajectory needed to enable an orderly and sustained convergence of headline inflation to the 3% target during the forecast 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.

Voting in favor of the decision were Victoria Rodríguez, Galia Borja, and Omar Mejía. Voting in favor of maintaining the target for the overnight interbank interest at 11.00% was Irene Espinosa and Jonathan Heath.

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

	2023		2024				2025				2026	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Headline (CPI)												
Current (08/08/2024) ^{1/}	4.6	4.4	4.6	4.8	5.2	4.4	3.7	3.3	3.1	3.0	3.0	3.0
Previous (06/27/2024) ^{2/}	4.6	4.4	4.6	4.7	4.5	4.0	3.5	3.3	3.1	3.0	3.0	3.0
Core												
Current (08/08/2024) ^{1/}	6.2	5.3	4.7	4.2	4.0	3.9	3.6	3.3	3.1	3.0	3.0	3.0
Previous (06/27/2024) ^{2/}	6.2	5.3	4.7	4.2	4.1	3.9	3.6	3.3	3.1	3.0	3.0	3.0
Memo												
Annualized seasonally adjusted quarterly variation in percent^{3/}												
Current - Headline ^{1/}	3.9	5.1	5.3	4.4	5.2	2.6	2.9	2.8	3.9	2.3	2.8	2.8
Current - Core ^{1/}	4.4	4.7	4.3	3.6	3.7	3.7	3.2	2.7	3.0	3.1	3.0	2.8

1/ Forecast starting August 2024.

2/ Forecast starting June 2024. See monetary policy statement of June 27, 2024.

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.