

May 12, 2022

## Press Release

**Monetary Policy Statement**

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**Banco de México's Governing Board decided to raise the target for the overnight interbank interest rate by 50 basis points to 7.0%, effective May 13, 2022.**

During the first quarter of the year, global economic activity grew at a lower-than-anticipated rate. World inflation continued increasing due to pressures originated by bottlenecks in production, by the recovery of demand, and the high levels of food and energy prices. This environment continues generating expectations of a faster withdrawal of monetary stimulus worldwide. Financial conditions tightened further, with an increase in interest rates and a stronger US dollar, in a context of higher risk aversion. In its latest monetary policy decision, the Federal Reserve raised the target range for the federal funds rate by 50 basis points and anticipated future adjustments. Also, it announced that the reduction of its balance sheet will begin in June. At the same time, a large number of central banks continued raising their reference rates. Among key global risks are those associated with the pandemic, inflationary pressures lasting longer, the intensification of geopolitical turmoil, and greater adjustments in monetary and financial conditions.

In domestic financial markets, the peso remained relatively stable, while interest rates increased accordingly to global trends. Preliminary information suggests that economic activity rebounded during the first quarter of 2022. Nevertheless, an environment of uncertainty and ample slack conditions continues to prevail, although the latter narrowed compared to the previous quarter.

In addition to the shocks that have affected inflation throughout the health emergency, now there are pressures associated with the geopolitical conflict and the strict lockdown measures recently imposed by China. Thus, in April headline and core inflation registered annual variations of 7.68% and 7.22%, respectively, their highest levels since January 2001, while their expectations for 2022 and 2023 increased significantly. Medium-term expectations for both of them were revised upwards, while those for longer terms have remained stable at levels above the target.

In view of greater-than-anticipated pressures on inflation, forecasts for headline and core inflation were revised upwards up to the second and third quarter of 2023, respectively, although convergence to the 3% target in the first quarter of 2024 is maintained (see table). These projections are subject to risks. On the upside: i) persistence of core inflation at high levels; ii) external inflationary pressures associated with the pandemic; iii) greater pressures on agricultural and livestock product prices and in energy prices due to the ongoing geopolitical conflict; iv) exchange rate depreciation; and v) cost-related pressures. On the downside: i) a decline in the intensity of the war conflict; ii) a better functioning of supply chains; iii) a greater-than-expected effect from the negative output gap; and iv) a larger-than-anticipated effect from the Policy Program to Fight Inflation and High Prices. The balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside and continues deteriorating.

The Governing Board evaluated the magnitude and diversity of the shocks that have affected inflation and its determinants, along with the risk of medium- and long-term inflation expectations and price formation becoming contaminated. It also considered the increasing challenges posed by the ongoing tightening of global monetary and financial conditions, the environment of significant uncertainty, and greater inflationary pressures associated with the geopolitical conflict and with the resurgence of COVID-19 cases in China, as well as the possibility of inflation being affected by additional pressures. Based on these considerations, the Board decided by majority to raise the target for the overnight interbank interest rate by 50 basis points to 7.0%. With this action, the monetary policy stance adjusts to the trajectory required for inflation to converge to its 3% target within the forecast horizon.

For the next monetary policy decisions, the Board will monitor thoroughly inflationary pressures as well as all factors that have an incidence on the foreseen path for inflation and its expectations. The latter, in order to set a policy rate that is consistent at all times with the trajectory needed to facilitate the orderly and sustained convergence of headline inflation to the 3% target within the time frame in which monetary policy operates as well as an adequate adjustment of the economy and financial markets. Given the growing complexity in the environment for inflation and its expectations, taking more forceful measures to attain the inflation target may be considered.

Voting in favor of the decision were Victoria Rodríguez, Galia Borja, Gerardo Esquivel, and Jonathan Heath. Voting in favor of raising the target for the overnight interbank interest rate by 75 basis points to 7.25% was Irene Espinosa.

<b>Forecasts for Headline and Core Inflation</b>													
Annual percentage change of quarterly average indices													
	2021				2022				2023			2024	
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
<b>Headline</b>													
Current (05/12/2022) <sup>1/</sup>	4.0	6.0	5.8	7.0	7.3	7.6	7.0	6.4	5.3	3.5	3.2	3.2	3.1
Previous (03/24/2022) <sup>2/</sup>	4.0	6.0	5.8	7.0	7.2	6.9	6.1	5.5	4.5	3.4	3.2	3.2	3.1
<b>Core</b>													
Current (05/12/2022) <sup>1/</sup>	3.9	4.4	4.8	5.6	6.5	7.2	6.6	5.9	4.8	3.6	3.3	3.1	3.0
Previous (03/24/2022) <sup>2/</sup>	3.9	4.4	4.8	5.6	6.5	6.7	5.9	5.2	4.1	3.4	3.1	3.1	3.0
<b>Memo</b>													
<b>Annualized seasonally adjusted quarterly variation in percent<sup>3/</sup></b>													
Current - Headline <sup>1/</sup>	6.1	8.3	6.4	7.1	7.3	9.3	4.4	4.5	3.2	1.9	3.5	4.0	2.9
Current - Core <sup>1/</sup>	4.2	5.0	6.6	6.7	7.8	7.6	4.2	4.2	3.2	2.7	3.2	3.4	2.7

1/ Forecast starting May 2022.

2/ Forecast starting March 2022. See monetary policy statement of March 24, 2022.

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.