

December 19, 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 10.00%, effective December 20, 2024.

World economic activity is expected to have grown in the fourth quarter of 2024 at a rate similar to that registered throughout the year. The US economy would continue its expansion. Disinflation advanced worldwide during the year. However, headline inflation recently increased in most of the major advanced economies, while core inflation has shown some persistence. In its latest monetary policy decision, the US Federal Reserve cut its reference rate by 25 basis points. Government interest rates decreased and the US dollar appreciated. Among key global risks are the possibility of policies that revert global economic integration, the intensification of geopolitical turmoil, the protraction of inflationary pressures, and higher levels of volatility in financial markets.

Since the previous monetary policy decision, Mexico's short-term government interest rates decreased while medium- and long-term ones increased. After the Mexican peso depreciated given the possibility of measures that could weaken integration with our main trade partner, it appreciated. Following the significant weakness observed in the past three quarters, the Mexican economy registered a greater rate of expansion during the third quarter of 2024. It is expected to exhibit a lack of dynamism for the remainder of 2024 and in 2025. As for the labor market, employment slowed down. The balance of risks to growth of economic activity remained biased to the downside.

Annual headline inflation decreased from 4.76 to 4.55% between October and November. It is still being affected by the supply shocks that have impacted the non-core component. Core inflation, which better reflects inflation's trend, continued its clear downward trend, going from 3.80 to 3.58% in the same period. Merchandise inflation is low, while services inflation has only declined moderately. Inflation expectations for the end of 2024 were revised downwards. Those for the end of 2025 and for longer terms remained relatively stable at levels above target.

Looking ahead, headline and core inflation are still foreseen to follow a downward trend. However, considering a greater persistence in services inflation, these forecasts were revised upwards. Headline inflation is expected to converge to the target in the third quarter of 2026 (see table). The possibility that tariffs on US imports from Mexico are implemented has added uncertainty to the forecasts. That scenario could imply pressures on inflation on both sides of the balance. Moreover, forecasts are subject to the following 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) disruptions due to geopolitical conflicts or foreign trade policies. 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. Nevertheless, the inflation outlook has been improving after the

significant shocks caused by the pandemic and the war in Ukraine. The behavior of core inflation reflects this improvement.

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 downward trajectory, the level it has attained, 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 continuing the rate-cutting cycle and reducing the level of monetary restriction is adequate. Thus, with the presence of all its members, the Board decided unanimously to lower the target for the overnight interbank interest rate by 25 basis points to 10.00%.

Looking ahead, the Board expects that the inflationary environment will allow further reference rate reductions. In view of the progress on disinflation, larger downward adjustments could be considered in some meetings, albeit maintaining a restrictive stance. It will take into account the prospects of global shocks continuing to fade and the effects of the weakness in economic activity. It will consider the incidence of the restrictive monetary policy stance that has been maintained and of the stance 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.

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

	2024				2025				2026			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Headline (CPI)												
Current (12/19/2024) ^{1/}	4.6	4.8	5.0	4.6	3.8	3.5	3.4	3.3	3.2	3.1	3.0	3.0
Previous (11/14/2024) ^{2/}	4.6	4.8	5.0	4.7	3.9	3.4	3.1	3.0	3.0	3.0	3.0	
Core												
Current (12/19/2024) ^{1/}	4.7	4.2	4.0	3.6	3.5	3.5	3.4	3.3	3.2	3.0	3.0	3.0
Previous (11/14/2024) ^{2/}	4.7	4.2	4.0	3.7	3.5	3.3	3.1	3.0	3.0	3.0	3.0	
Memo												
Annualized seasonally adjusted quarterly variation in percent^{3/}												
Current - Headline ^{1/}	5.3	4.1	5.3	3.2	3.0	3.1	4.0	3.0	2.7	2.7	3.6	3.0
Current - Core ^{1/}	4.4	3.7	3.6	3.4	3.7	3.4	3.3	3.0	3.0	2.8	3.1	3.0

1/ Forecast starting December 2024.

2/ Forecast starting November 2024. See monetary policy statement of November 14, 2024. Forecast presented in the Quarterly Report July-September 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.