

Press Release

Monetary Policy Statement

Banco de México's Governing Board decided to lower the target for the overnight interbank interest rate by 25 basis points to 4.00%, effective February 12, 2021.

Global economic activity continued to recover at a more moderate rate and heterogeneously across countries and sectors. Global financial markets have exhibited a positive behavior in view of expectations of a large fiscal stimulus package in the United States. Inflation in advanced economies remains below the targets of their central banks, which reiterated their intention to maintain accommodative monetary policy stances for an extended period. Global risks prevail, including the rise in virus infections, delays in vaccine production and distribution, the sufficiency of fiscal stimuli, and other tensions.

Since December, the Mexican peso and interest rates have fluctuated in a narrow range. Economic activity in Mexico improved during the fourth quarter at a slightly higher-than-foreseen rate, although it remains below the levels prior to the pandemic, in an uncertain environment with downward risks. Ample slack conditions are expected throughout the time frame in which monetary policy operates.

Annual headline inflation decreased from 4.09% in October, its highest level in 2020, to 3.54% in January 2021, while core inflation declined from 3.98% to 3.84%. The pandemic has implied significant changes in relative prices, which have exerted upward pressures on merchandise inflation and downward pressures on services inflation, which registered 5.41% and 2.13%, respectively, in January. Headline inflation expectations for the end of 2021 were adjusted slightly upwards and those for the medium and long terms remained stable at levels above the 3% target.

The expected paths for headline and core inflation within the forecast horizon are similar to those foreseen in the last Quarterly Report. Increases in headline inflation are anticipated during the second quarter of the year, mainly associated with the arithmetical effects of the fall in energy prices of last year, and a downward trajectory starting in the second half of the year. Core inflation is expected to be around 3% as of the third quarter of this year. These forecasts are subject to short- and medium-term risks. To the downside: i) a greater-than-expected effect due to the negative output gap or to greater social distancing measures; ii) lower inflationary pressures worldwide; and iii) foreign exchange appreciation. To the upside: i) core inflation pressures generated by the recomposition of spending; ii) episodes of foreign exchange depreciation; and iii) various cost-related pressures for firms. The balance of risks for the projected trajectory of inflation is uncertain.

The risks for inflation, economic activity and financial markets pose major challenges for monetary policy and for the economy. In this regard, it is necessary to enable an orderly adjustment that allows for a change in relative prices, without affecting the price formation process and inflation expectations. Considering that incoming information allows for a monetary policy adjustment, while maintaining inflation forecasts in line with the converging trajectory to the 3% target, with the presence of all its members, the Governing Board decided unanimously to lower the target for the overnight interbank interest rate by 25 basis points to a level of 4.00%. Looking ahead, monetary policy implementation will depend on the

evolution of the factors that have an incidence on headline and core inflation, on their foreseen trajectories within the forecast horizon, and on their expectations.

The Governing Board will take the necessary actions based on incoming information in order for the policy rate to be consistent with the orderly and sustained convergence of headline inflation to the 3% target within the time frame in which monetary policy operates. It is necessary to safeguard the institutional framework, strengthen the macroeconomic fundamentals and adopt the necessary actions on both monetary and fiscal policy fronts, to enable a better adjustment of domestic financial markets and of the economy as a whole.