

Monetary Policy Statement

Banco de México's Governing Board has decided to move forward its monetary policy decision from the 26th to the 20th of March and to lower by 50 basis points the target for the overnight interbank interest rate to 6.5%, as well as to adopt other measures to provide liquidity and improve the functioning of domestic financial markets.

Given the world's complex economic and financial situation, Banco de México has been closely monitoring domestic financial markets in order to take the necessary actions in a timely manner. The rapid spread of the COVID-19 outbreak has severely affected the world economy's growth outlook and led to a substantial deterioration of global financial conditions. Additionally, the prices of commodities, especially of crude oil, have plummeted. These have led several central banks of advanced and emerging economies to reduce their interest rates, in some cases ahead of schedule. At the same time, other extraordinary fiscal and monetary measures have been implemented to mitigate the expected decline in internal and external demand, as well as to guarantee the proper functioning of financial markets. As in other emerging economies, in the last weeks the Mexican peso exchange rate depreciated considerably, government bond yields rose significantly for all terms, and risk premia increased markedly. In this regard, the Governing Board decided today to implement additional measures to provide liquidity to the banking system and improve the functioning of domestic financial markets.

The above circumstances affect both the growth and inflation outlook for the Mexican economy within the time frame in which monetary policy operates. In particular, the negative effects on economic activity that may result from the pandemic, in a context of a further weakening of the global economy, imply a deterioration of the economy's growth outlook. For this reason, an even greater than anticipated widening of slack conditions is foreseen, with a balance of risks significantly biased to the downside.

As for inflation, the expected widening of the negative output gap together with the decline in international energy prices, may imply downward pressures on this indicator. Nevertheless, these could be offset by upward pressures on prices exerted by the depreciation of the peso. Thus, although inflation is expected to continue its downward trend towards Banco de México's target within the time frame in which monetary policy operates, this trend could be slower and is subject to important risks, both to the downside and to the upside. In this context, uncertainty as to the balance of risks for inflation has increased.

Considering the risks for inflation, economic activity and financial markets implied by the COVID-19 pandemic, significant challenges arise for monetary policy and for the economy in general. In light of the foreseen implications, with the presence of all its members, Banco de México's Governing Board decided by majority to lower the target for the overnight interbank interest rate by 50 basis points to 6.5%. One member voted for lowering the target to 6.75%.

The Governing Board will take the necessary actions on the basis of incoming information so that the policy rate is consistent with the orderly and sustained convergence of headline inflation to Banco de México's target in the time frame in which monetary policy operates. Perseverance in strengthening the macroeconomic fundamentals and in adopting the necessary actions, regarding both monetary and fiscal policies, will contribute to a successful adjustment of domestic financial markets and of the economy as a whole.