

Monetary Policy Statement

Banco de México's Governing Board has decided to lower the target for the overnight interbank interest rate by 25 basis points to 7%.

Economic slowdown, low inflation, accommodative monetary policies, and lower interest rates continue to prevail in the world economy. Although in this context global financial conditions have continued to loosen, the balance of risks for world economic activity remains biased to the downside due to several factors of uncertainty, including the effects of the recent coronavirus outbreak. In this context, over the last weeks the peso exchange rate appreciated and interest rates on government securities of all maturities decreased. Nevertheless, external and domestic risks prevail which could affect the performance of domestic financial markets.

Economic activity in Mexico has remained stagnant for several quarters, with a generalized weakness in aggregate demand components. Thus, slack conditions have continued to widen. Based on most recent data, GDP in 2020 is foreseen to grow less than estimated in the Quarterly Report July-September 2019, with a balance of risks biased to the downside.

Between November 2019 and January 2020 annual headline inflation rose from 2.97% to 3.24%, mainly due to the increase in the non-core component from 0.98% to 1.81%, while core inflation did so from 3.65% to 3.73%. Core inflation was affected by the increase in the prices subject to the excise tax (IEPS, for its acronym in Spanish) and continues to show resistance to decline. Short-, medium- and long-term headline inflation expectations have remained relatively stable, albeit at levels above 3%, while core inflation expectations for the same terms were revised upwards.

In light of the recent behavior of the factors affecting the foreseen path of inflation, headline and core inflation are expected to be moderately above the forecasts published in the last Quarterly Report. Regarding risks to the foreseen trajectory for inflation, those prevailing to the upside include: core inflation's resistance to decline; wage increases affecting the labor market and prices; a possible exchange rate adjustment due to external or domestic factors; increases in agricultural and livestock prices greater than expected; and a deterioration of public finances. As for downside risks: a further appreciation of the peso exchange rate; lower international prices of energy goods due to the coronavirus outbreak; and a greater economic slack. In this context, uncertainty still persists regarding the balance of risks for the referred trajectory of inflation.

With the presence of all its members, Banco de México's Governing Board decided unanimously to lower the target for the overnight interbank interest rate by 25 basis points to 7%. To this end, the current levels of headline inflation, the inflation outlook within the time frame in which monetary policy operates, the greater amount of economic slack, and the recent behavior of external and domestic yield curves, were considered.

The Governing Board will take the necessary actions based on incoming data so that the policy rate is consistent with the orderly and sustained convergence of headline inflation to Banco de México's target within the time frame in which monetary policy operates. To strengthen the macroeconomic framework and the country's growth capacity, in addition to a prudent monetary policy, public finances must be consolidated in a sustainable way.