

March 24, 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 6.5%, effective March 25, 2022.

Available indicators suggest a moderation in global economic activity during the first quarter of 2022. World inflation continued increasing due to pressures originated by bottlenecks in production and to the high levels of food and energy prices. This environment has generated expectations of a faster withdrawal of monetary stimulus worldwide. Financial conditions tightened, with an increase in interest rates and a stronger US dollar, in a context of higher risk aversion associated with the recent geopolitical conflict. In its latest monetary policy decision, the Federal Reserve raised the target range for the federal funds rate by 25 basis points and announced that it expects to continue increasing it in the remaining meetings of 2022, although it pointed out that it will calibrate the pace of monetary policy adjustments if it foresees risks that may jeopardize the attainment of its goals. Many emerging market economies continued increasing their reference rates. Among key global risks are those associated with the pandemic, longer-lasting inflationary pressures, the intensification of geopolitical turmoil, and greater adjustments in monetary and financial conditions.

In domestic financial markets, the peso slightly appreciated albeit registering some episodes of volatility, while interest rates increased accordingly to global developments. Available indicators suggest that the Mexican economy might have resumed its recovery during early 2022. An environment of uncertainty and ample slack conditions prevails, although the latter are expected to be less ample than in the previous quarter.

In addition to the shocks that have affected inflation throughout the health emergency there are pressures associated with the geopolitical conflict. During the first fortnight of March, headline and core inflation registered annual variations of 7.29% and 6.68%, respectively, while their expectations for 2022 and 2023 increased again. Medium-term expectations for headline inflation were revised upwards at the margin, while those for core inflation were left unchanged and longer-term expectations have remained stable at levels above the target.

Given the greater inflation pressures, forecasts for headline and core inflation were revised significantly upwards for the entire horizon and convergence to the 3% target is now expected to be attained in the first quarter of 2024 (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) increases in agricultural and livestock product prices and in energy prices due to the recent 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 greater-than-expected effect from the negative output gap; iii) energy prices below

those anticipated; and iv) exchange rate appreciation. The balance of risks for the trajectory of inflation within the forecast horizon has deteriorated and remains biased to the upside.

The Governing Board evaluated the magnitude and diversity of the shocks that have affected inflation and the factors that determine it, along with the risk of medium- and long-term inflation expectations and price formation becoming contaminated. It also considered the challenges posed by the ongoing tightening of global monetary and financial conditions, and the environment of significant uncertainty and greater inflationary pressures associated with the geopolitical conflict. Based on these considerations, and with the presence of all its members, the Board decided unanimously to raise the target for the overnight interbank interest rate by 50 basis points to 6.5%. 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 the behavior of inflationary pressures as well as of all factors that have an incidence on the foreseen path for inflation and its expectations. The latter, in order to take the necessary actions to avoid the price formation process from becoming contaminated, and 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.

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

	2021				2022				2023				2024
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
CPI													
Current (03/24/2022) ^{1/}	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
Previous (02/10/2022) ^{2/}	4.0	6.0	5.8	7.0	6.9	5.4	4.6	4.0	3.4	3.2	3.1	3.1	
Core													
Current (03/24/2022) ^{1/}	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
Previous (02/10/2022) ^{2/}	3.9	4.4	4.8	5.6	6.4	6.1	5.1	4.3	3.3	2.9	2.7	2.7	
Memo													
Annualized seasonally adjusted quarterly variation in percent^{3/}													
Current - CPI ^{1/}	5.8	8.7	6.5	7.0	6.9	7.0	3.7	4.4	3.0	2.5	3.2	4.0	2.8
Current - Core ^{1/}	3.9	5.3	6.7	6.6	7.5	5.8	3.7	3.8	3.1	3.0	2.8	3.4	2.7

1/ Forecast starting March 2022.

2/ Forecast starting February 2022. See monetary policy statement of February 10, 2022. Forecast included in the Quarterly Report 4-2021.

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.