

August 12, 2021

Press Release

## Monetary Policy Statement

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**Banco de México's Governing Board decided to increase the target for the overnight interbank interest rate by 25 basis points to 4.50%, effective August 13, 2021.**

Global economic activity continued to recover heterogeneously across countries, associated with vaccine availability, the evolution of the pandemic, and stimulus spending. Global inflation continued increasing significantly due to pressures on commodity prices, base effects, and multiple bottlenecks in production. The central banks of advanced economies have maintained the monetary stimulus -although in some cases they are already expecting to diminish it- while in emerging economies several of them have reduce it. Among key global risks are those associated with the pandemic and inflationary pressures, as well as with monetary and financial conditions.

Domestic financial markets have exhibited exchange rate stability and interest rate increases, particularly for shorter terms. The recovery of the Mexican economy continued during the second quarter and is expected to endure for the rest of the year, while risks related to the growing number of infections persist. Although the pandemic has complicated the assessment of the economy, slack conditions are anticipated, with significant differences across sectors.

Global inflation along with adverse effects on supply chains and productive processes of several goods and services generated pressures on headline and core inflation, which in July registered annual rates of 5.81% and 4.66%, respectively. Headline and core inflation expectations for 2021 increased again and those for the medium and long terms remained relatively stable at levels above the target.

The revised forecasts for headline and core inflation are above those published in the last Quarterly Report (see table). Considering the nature of the shocks that have affected them, the larger increases correspond to the short term. Annual headline and core inflation projections are expected to decrease, particularly for horizons of one year and beyond, and to converge to the 3% target during the first quarter of 2023. These forecasts are subject to risks and additional shocks. On the upside: i) external inflationary pressures; ii) cost-related pressures; iii) core inflation persistence; iv) exchange rate depreciation; and v) increases in agricultural and livestock product prices. On the downside: i) effects stemming from the negative output gap; ii) additional social distancing; and iii) exchange rate appreciation. The balance of risks for the trajectory of inflation within the forecast horizon is biased to the upside.

Although the shocks that have increased inflation are expected to be transitory, due to their variety, magnitude, and the extended horizon over which they have affected it, they may pose risks to the price formation process. For this reason, it was deemed necessary to strengthen the monetary policy stance in order to avoid adverse effects on inflation expectations and enable an orderly adjustment of relative prices and the convergence of inflation to the 3% target. The Governing Board decided to increase the target for the overnight interbank interest rate by 25 basis points to 4.5%.

For the next monetary policy decisions, the Governing Board will assess the factors that have an incidence on inflation, on its foreseen trajectory within the forecast horizon, and on its expectations. This,

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, and enable an adequate adjustment of the economy and financial markets.

Voting in favor of the decision were Alejandro Díaz de León, Irene Espinosa, and Jonathan Heath. Voting in favor of leaving the target for the overnight interbank interest rate unchanged at 4.25% were Galia Borja and Gerardo Esquivel.

### Forecasts for Headline and Core Inflation

Annual percentage change

	2021				2022				2023	
	I	II	III	IV	I	II	III	IV	I	II
<b>CPI</b>										
<b>Current</b> (08/12/2021) <sup>1/</sup>	4.0	6.0	5.6	5.7	5.2	3.9	3.2	3.4	3.1	3.1
<b>Previous</b> (06/02/2021) <sup>2/</sup>	4.0	5.8	4.5	4.8	4.3	3.0	3.1	3.1	2.9	
<b>Core</b>										
<b>Current</b> (08/12/2021) <sup>1/</sup>	3.9	4.4	4.7	5.0	5.1	4.4	3.6	3.3	3.1	3.0
<b>Previous</b> (06/02/2021) <sup>2/</sup>	3.9	4.3	3.9	3.9	3.9	3.3	3.2	3.2	3.2	

1/ Forecasts as of August 2021.

2/ Forecasts as of May 2021. Quarterly Report January - March 2021.

Source: INEGI for observed figures and Banco de México for forecasts.

Note: the shaded area corresponds to observed figures.