September 29, 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 75 basis points to 9.25%, effective September 30, 2022.

Timely indicators suggest that world economic activity has continued decelerating during the third quarter. Global inflation continued increasing in an environment where imbalances between demand and supply in several markets and high levels of food and energy prices persist. This continues generating expectations of an accelerated monetary tightening worldwide and of reference rates at elevated levels for an extended period. Financial conditions remained tight while the dollar continued gaining strength. In its latest monetary policy decision, the Federal Reserve raised the target range for the federal funds rate by 75 basis points for a third consecutive time and anticipated future adjustments. Job creation in that country remained strong, and although inflation continued decreasing moderately, it is still at high levels. In turn, a large number of other central banks have continued raising their reference rates, some of them by higher-than-foreseen magnitudes. Among key global risks are those associated with the pandemic, the persistence of inflationary pressures, the intensification of geopolitical turmoil, and greater adjustments in economic, monetary and financial conditions.

In domestic financial markets, the peso remained stable, while interest rates of government bonds increased throughout the entire yield curve. The rate of growth of economic activity during the third quarter is expected to slow down relative to that observed during the first half of the year, although slack conditions are expected to continue decreasing. An environment of uncertainty prevails, while the balance of risks for economic activity remains biased to the downside.

The accumulated inflationary pressures associated with both the pandemic and the military conflict continue affecting headline and core inflation, which in the first half of September registered annual rates of 8.76% and 8.27%, respectively, thus remaining at levels unseen in two decades. Their expectations for 2022 and 2023 rose again, while those for the medium term adjusted slightly upwards, and those for the long term remained stable, although above the target.

In view of greater-than-anticipated inflationary shocks and an outlook that their effects will take longer to dissipate, forecasts for headline and core inflation were revised upwards for the entire forecast horizon. In this complex environment, inflation is projected to converge to the 3% target in the third 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) greater pressures on agricultural and livestock product prices and on energy prices due to the ongoing geopolitical conflict; iv) exchange rate depreciation; and v) cost-related pressures. On the downside: i) a greater-than-anticipated slowdown in world economic activity; ii) a decline in the intensity of the geopolitical conflict; iii) a better functioning of supply chains; iv) a greater-than-expected effect from the negative output gap; and v) a larger-than-anticipated effect from the Policy Program to Fight Inflation and High Prices (PACIC, for its

Spanish acronym). The balance of risks for the trajectory of inflation within the forecast horizon remains biased significantly to the upside.

The Governing Board evaluated the magnitude and diversity of the shocks that have affected inflation and its determinants, along with the evolution of medium- and long-term inflation expectations and the price formation process. It also considered the increasing challenges for monetary policy stemming from the ongoing tightening of global financial conditions, the environment of significant uncertainty, the inflationary pressures accumulated as a result of the pandemic and the geopolitical conflict, as well as the possibility of greater effects on inflation. 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 75 basis points to 9.25%. With this action, the monetary policy stance adjusts to the trajectory required for inflation to converge to its 3% target within the forecast horizon.

The Board will thoroughly monitor inflationary pressures as well as all factors that have an incidence on the foreseen path for inflation and its expectations. This, in order to set a policy rate that is consistent at all times, with both the orderly and sustained convergence of headline inflation to the 3% target within the time frame in which monetary policy operates as well as with an adequate adjustment of the economy and financial markets. The Board will assess the magnitude of the upward adjustments in the reference rate for its next policy decisions based on the prevailing conditions.

Forecasts for Headline and Core Inflation

Annual percentage change of quarterly average indices

	2021		2022				2023				2024		
	III	IV	I	II	III	IV	I	II	III	IV	I	II	III
Headline (CPI)													
Current (29/09/2022)[1/]	**5.8**	**7.0**	**7.3**	**7.8**	**8.6**	**8.6**	**7.9**	**6.0**	**4.8**	**4.0**	**3.7**	**3.4**	**3.1**
Previous (11/08/2022)[2/]	5.8	7.0	7.3	7.8	8.5	8.1	7.1	5.0	3.7	3.2	3.1	3.1	
Core													
Current (29/09/2022)[1/]	**4.8**	**5.6**	**6.5**	**7.3**	**8.0**	**8.2**	**7.3**	**6.2**	**5.0**	**4.1**	**3.6**	**3.2**	**3.0**
Previous (11/08/2022)[2/]	4.8	5.6	6.5	7.3	7.9	7.6	6.5	5.1	3.8	3.2	3.1	3.0	
Memo													
Annualized seasonally adjusted quartely variation in percent[3/]													
Current - Headline[1/]	5.8	7.2	7.5	10.7	8.9	7.4	4.5	3.3	4.2	4.0	3.2	2.3	2.9
Current - Core[1/]	5.9	6.6	8.3	8.7	8.5	7.1	5.0	4.2	3.8	3.3	3.2	2.8	2.7

1/ Forecast starting September 2022.
2/ Forecast starting August 2022. See monetary policy statement of August 11, 2022. Forecast included in the Quarterly Report April-June 2022.
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.