

March 30, 2023

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 by 25 basis points to 11.25%, effective March 31, 2023.

Global inflation remains at high levels, although in a large number of economies, headline inflation continued decreasing. The core component continued showing persistence. Recently, international financial markets registered turbulence due to greater risk aversion generated by the developments in the US and European banking systems. Financial authorities have implemented measures such as increasing the protection of bank deposits and the provision of liquidity, in order to maintain confidence in the financial system. Most central banks, including the US Federal Reserve, continued raising their reference rates. The outlook for 2023 implies a deceleration. Among key global risks are the persistence of inflationary pressures, the intensification of geopolitical turmoil, tighter financial conditions, and the challenges to financial stability.

Since the previous monetary policy decision, interest rates in Mexico showed generalized increases. After having appreciated, the Mexican peso has recently registered volatility in response to the higher risk aversion. The difficulties faced by certain banking institutions in the United States and Europe have had a limited impact on the domestic financial system. Banking institutions in Mexico exceed regulatory requirements in terms of liquidity and capitalization. Banco de México will remain attentive to the developments in international financial markets and to any likely impact on the domestic financial market. Economic activity in Mexico has shown resilience in a complex external environment and continued increasing during the early part of 2023 at a moderate pace. The labor market remains strong.

Since the last monetary policy meeting, annual headline inflation has decreased more than expected. This was a result of the evolution of the non-core component. Core inflation has adjusted downwards gradually. During the first fortnight of March, headline and core inflation registered 7.12% and 8.15% respectively. Inflation expectations for 2023 and 2024 were revised upwards again, while those for longer terms remained relatively stable.

Forecasts for headline and core inflation were revised marginally, although their trajectories remain stable. Inflation is still projected to converge to the 3% target in the fourth quarter of 2024 (see table). These projections are subject to risks. On the upside: i) persistence of core inflation at high levels; ii) foreign exchange depreciation due to volatility in international financial markets; iii) greater cost-related pressures, and iv) pressures on energy prices or on agricultural and livestock product prices. On the downside: i) a greater-than-anticipated slowdown of the world economy; ii) a lower pass-through effect from some cost-related pressures; iii) a decline in the intensity of the geopolitical conflict or a better functioning of supply chains; and iv) a larger-than-anticipated effect from the Federal Government's

measures to fight elevated prices. The balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside.

The Governing Board evaluated the magnitude and diversity of the inflationary shocks and its determinants, along with the evolution of medium- and long-term inflation expectations and the price formation process. It considered the challenges stemming from the ongoing tightening of global financial conditions, the environment of uncertainty, the persistence of accumulated inflationary pressures and the possibility of greater effects on inflation, as well as the monetary policy stance already attained in this hiking cycle. Based on the above, and with the presence of all its members, the Board decided unanimously to raise the target for the overnight interbank interest rate by 25 basis points to 11.25%. With this action, it slows the pace of interest rate increases and 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. The latter, 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. For its upcoming decision, the Board will take into account the inflation outlook, considering the monetary policy stance already attained.

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

	2022				2023				2024				2025
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Headline (CPI)													
Current (03/30/2023) ^{1/}	7.3	7.8	8.5	8.0	7.5	6.3	5.3	4.8	4.2	3.7	3.4	3.1	3.1
Previous (02/09/2022) ^{2/}	7.3	7.8	8.5	8.0	7.7	6.4	5.3	4.9	4.2	3.7	3.4	3.1	
Core													
Current (03/30/2023) ^{1/}	6.5	7.3	8.0	8.4	8.3	7.5	6.2	5.0	4.1	3.5	3.2	3.1	3.1
Previous (02/09/2022) ^{2/}	6.5	7.3	8.0	8.4	8.2	7.3	6.2	5.0	4.1	3.5	3.2	3.1	
Memo													
Annualized seasonally adjusted quarterly variation in percent^{3/}													
Current - Headline ^{1/}	7.5	9.9	8.4	6.2	5.6	4.8	4.5	4.1	3.3	2.8	3.1	3.3	3.4
Current - Core ^{1/}	7.8	8.5	8.9	8.5	7.1	5.3	4.2	3.5	3.4	3.0	2.8	3.1	3.3

1/ Forecast starting March 2023.

2/ Forecast starting February 2023. See monetary policy statement of February 9, 2023. Forecast presented in the Quarterly Report October-December 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.