BANCO DE MÉXICO

August 10, 2023

Press Release

Monetary Policy Statement

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Banco de México's Governing Board decided to maintain the target for the overnight interbank interest rate at 11.25%.

Headline inflation continued decreasing in most economies. Nevertheless, it remains at high levels. The core component has shown a resistance to decline. Central banks of the major advanced economies, such as the US Federal Reserve and the European Central Bank, raised their reference rates, underlining that future rate adjustments would be highly dependent on incoming data. World growth prospects for 2023 continue implying a deceleration, although slightly less intense than previously anticipated. Among key global risks are persistence of inflationary pressures, the worsening of geopolitical turmoil, tighter financial conditions, and, to a lesser extent, the challenges to financial stability.

In Mexico, since the previous monetary policy decision, government bond yields had been registering limited adjustments for all terms and the exchange rate had been appreciating. However, in the last days, longer-term bond yields and the exchange rate increased slightly due to greater risk aversion worldwide. Economic activity has shown resilience and registered higher-than-anticipated growth. The labor market remains strong. The balance of risks to growth is equilibrated.

Since the last monetary policy meeting, annual headline and core inflation continued decreasing. However, they are still high, as they registered 4.79% and 6.64%, respectively, in July. Non-core inflation remained at historical lows, reaching an atypical level of -0.67% during the same period. Inflation expectations for 2023 decreased. Longer-term ones remained relatively stable at levels above target.

Forecasts for headline inflation remained practically unchanged. Those for core inflation were adjusted marginally upwards for the short term. 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) that the exchange rate appreciation contributes more than anticipated to mitigate some pressures on inflation; 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 their determinants, along with the evolution of medium- and long-term inflation expectations and the price formation process. It considered that the disinflationary process is underway given that diverse pressures have eased. Nevertheless, it deemed that these continue having an incidence on inflation, and thus it remains high. Also, that the inflationary outlook is still very complex. Based on the above, and considering the monetary policy stance already attained, with the presence of all its members, the Board decided unanimously to maintain the target for the overnight interbank interest rate at 11.25%. With this decision, the monetary policy stance remains in 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. It estimates that the inflationary outlook will be complicated and uncertain throughout the entire forecast horizon, with upward risks. Thus, in order to achieve an orderly and sustained convergence of headline inflation to the 3% target, it considers that it will be necessary to maintain the reference rate at its current level for an extended period. The central bank reaffirms its commitment with its primary mandate and the need to continue its efforts to consolidate an environment of low and stable inflation.

Forecasts for Headline and Core Inflation

Annual percentage change of quarterly average indices

	2022			2023				2024				2025	
	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
Headline (CPI)													
Current (08/10/2023)1/	**7.8**	**8.5**	**8.0**	**7.5**	**5.7**	**4.7**	**4.6**	**4.1**	**3.7**	**3.4**	**3.1**	**3.1**	**3.1**
Previous (06/22/2023)2/	7.8	8.5	8.0	7.5	5.7	5.0	4.6	4.1	3.7	3.4	3.1	3.1	3.1
Core													
Current (08/10/2023)1/	**7.3**	**8.0**	**8.4**	**8.3**	**7.3**	**6.2**	**5.1**	**4.2**	**3.6**	**3.2**	**3.1**	**3.1**	**3.1**
Previous (06/22/2023)2/	7.3	8.0	8.4	8.3	7.3	6.2	5.0	4.1	3.5	3.2	3.1	3.1	3.1
Memo													
Annualized seasonally adjusted quarterly variation in percent3/													
Current - Headline1/	10.8	8.7	5.5	4.9	3.9	4.4	4.9	3.1	2.7	3.2	3.5	3.1	2.8
Current - Core1/	8.8	9.0	8.3	6.9	5.1	4.5	4.0	3.2	2.8	2.9	3.3	3.2	2.8

1/ Forecast starting August 2023.
2/ Forecast starting June 2023. See monetary policy statement of June 22, 2023.
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.